

**ROJAM ENTERTAINMENT HOLDINGS LIMITED**

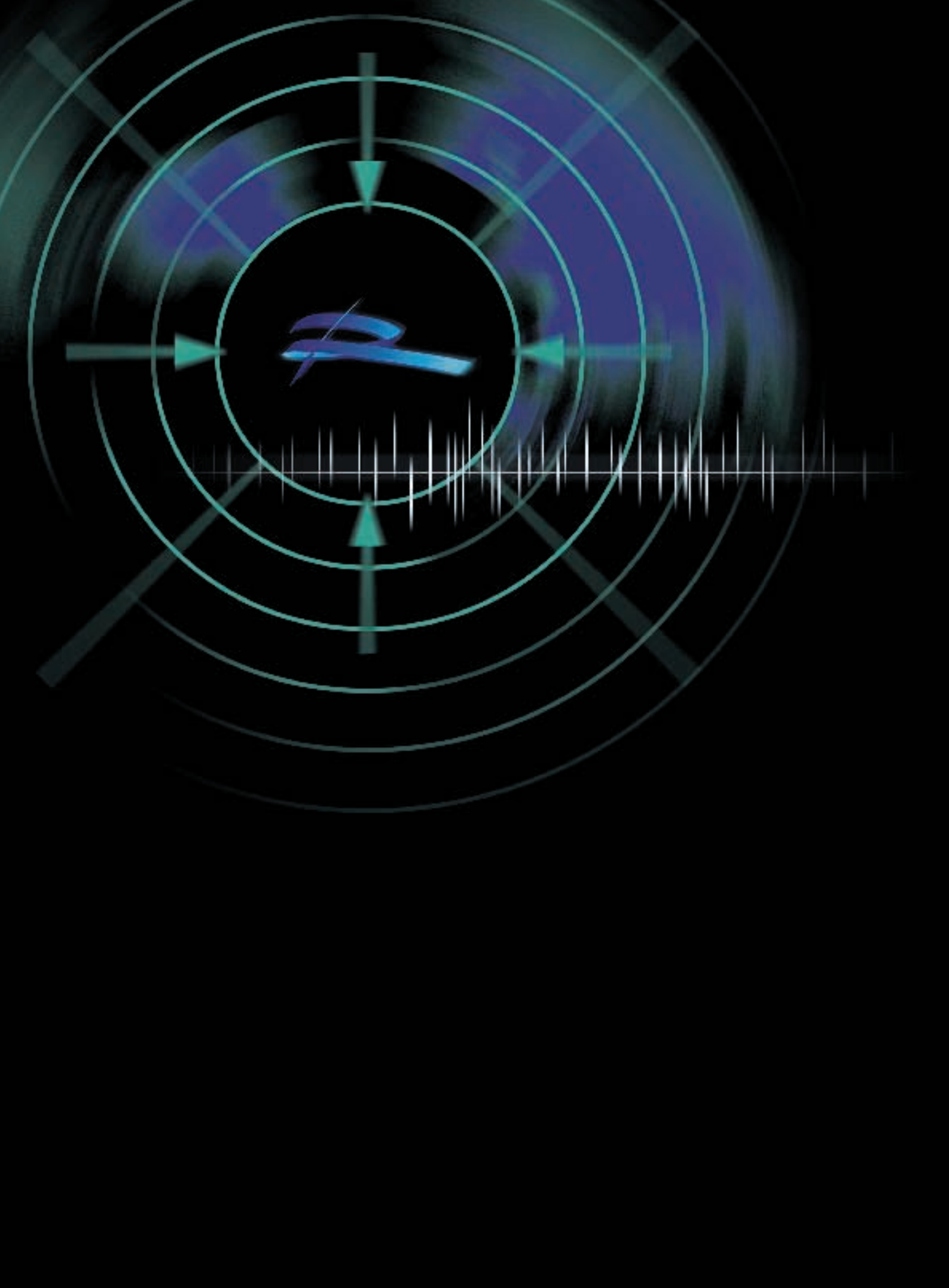
*(Incorporated in the Cayman Islands with limited liability)*

**2003/2004 Annual Report**



**ROJAM**

Entertainment Network Asia



## Characteristics of the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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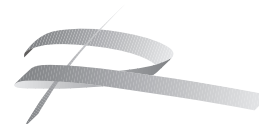
**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

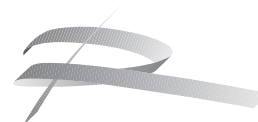
**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.*

*This annual report, for which the directors of Rojam Entertainment Holdings Limited (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to Rojam Entertainment Holdings Limited). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



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## BOARD OF DIRECTORS

### Executive Directors

Takeyasu Hashizume (*President*)  
Tetsuo Mori (*Executive Vice President*  
*(Business Development)*)  
Osamu Nagashima  
*(Executive Vice President (Asia))*  
Mitsuo Sakauchi  
*(Executive Vice President (Japan))*  
Arihito Yamada  
*(Executive Vice President (Finance))*  
Yukitsugu Shimizu  
Hiroshi Osaki

### Independent Non-executive Directors

Seiichi Nakaoda  
Yeung Mui Kwan, David

## COMPLIANCE OFFICER

Arihito Yamada

## COMPANY SECRETARY

Etsuko Hoshiyama, *AICPA, AHKSA*

## QUALIFIED ACCOUNTANT

Cheng Kit Sum, *FCCA, AHKSA*

## AUDIT COMMITTEE

Seiichi Nakaoda  
Yeung Mui Kwan, David

## AUTHORISED REPRESENTATIVES

Arihito Yamada  
Tetsuo Mori

## REGISTERED OFFICE

Century Yard, Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 2403, 24/F, Tower 2  
Lippo Centre  
89 Queensway  
Hong Kong

## WEBSITE

<http://www.rojam.com>

## STOCK CODE

8075

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited  
Butterfield House  
Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong  
Investor Services Limited  
Rooms 1901-5, 19/F  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## AUDITORS

PricewaterhouseCoopers

## LEGAL ADVISORS

*As to Hong Kong Law:*  
Deacons

*As to Cayman Islands Law:*  
Conyers Dill & Pearman

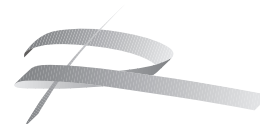
## PRINCIPAL BANKERS

Mizuho Bank Limited

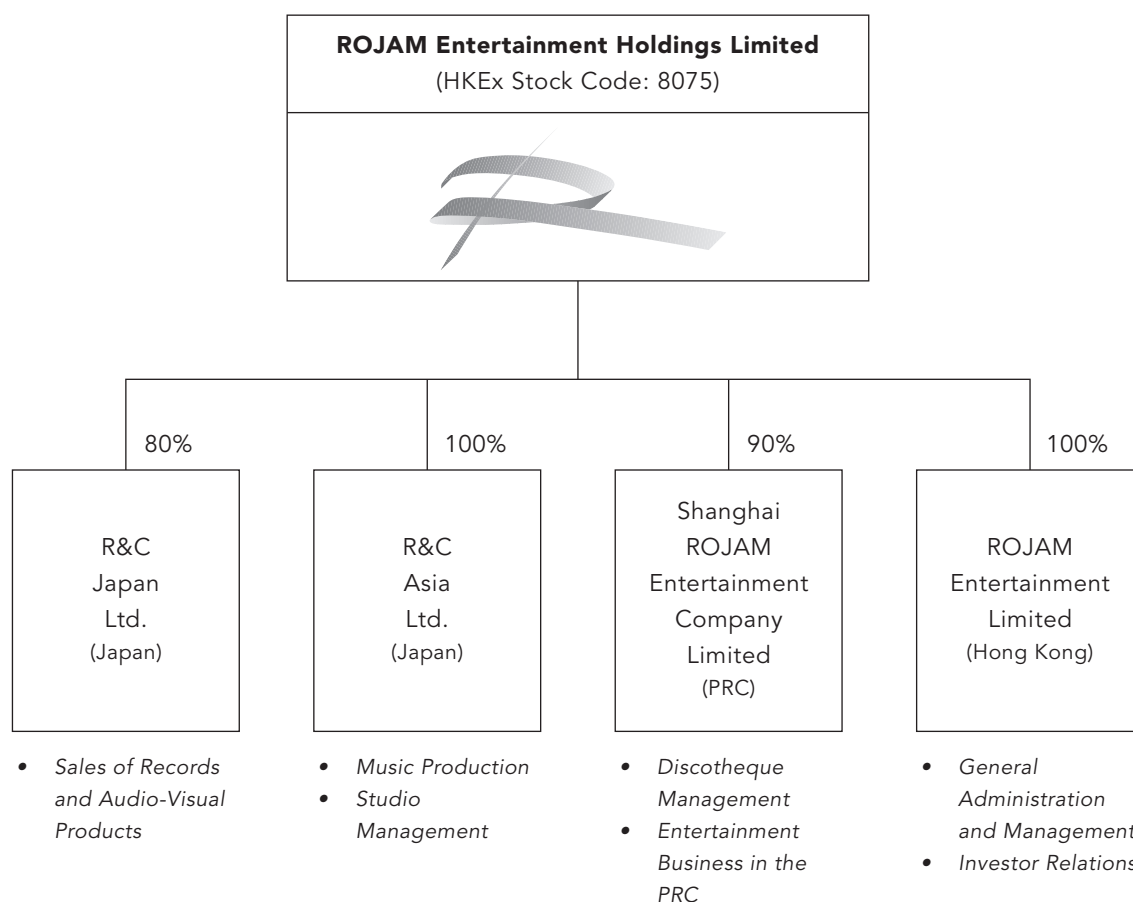
Credit Suisse First Boston  
Hong Kong Branch

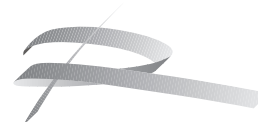
The Hong Kong and Shanghai Banking  
Corporation Limited

# Simplified Corporate Chart



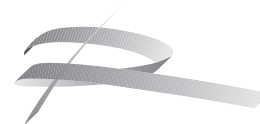
The following is a simplified corporate chart of principal operating subsidiaries of Rojam Entertainment Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group").





|  | <b>2004</b>     | Restated<br>2003 | 2002     | 2001     | 2000     |
|--|-----------------|------------------|----------|----------|----------|
|  | <b>HK\$'000</b> | HK\$'000         | HK\$'000 | HK\$'000 | HK\$'000 |
| <b>Results for the year ended<br/>31st March</b> |                 |                  |          |          |          |
| Turnover   | <b>249,349</b>  | 129,491          | 48,756   | 134,925  | 1,506    |
| Profit/(loss) before taxation                    | <b>11,146</b>   | 10,571           | (82,933) | 19,722   | (916)    |
| Profit/(loss) attributable to<br>shareholders    | <b>7,292</b>    | 3,320            | (82,929) | 19,723   | (916)    |
| <b>Assets and liabilities</b>                    |                 |                  |          |          |          |
| Total assets                                     | <b>298,383</b>  | 259,138          | 187,383  | 234,022  | 23,005   |
| Total liabilities                                | <b>(65,178)</b> | (34,588)         | (9,281)  | (23,134) | (25,123) |
| Minority interests                               | <b>(1,884)</b>  | 484              | –        | (101)    | –        |
| Net assets/(liabilities)                         | <b>231,321</b>  | 225,034          | 178,102  | 210,787  | (2,118)  |

The figures for the year ended 31st March 2003 have been restated pursuant to the adoption of Statement of Standard Accounting Practice 12 Income Taxes (revised).



## FINANCIAL HIGHLIGHTS

In the financial year of 2003/2004, I am pleased to report that the Group had another very successful year and achieved a robust turnover. The turnover increased by 93% from HK\$129.5 million to HK\$249.3 million. The Group attained profitability since the second quarter of the financial year. Profit before taxation for the year amounted to HK\$11.1 million, representing a slight 5% increase from HK\$10.6 million of the last year. Profit attributable to shareholders was HK\$7.3 million, a 120% increase compared with HK\$3.3 million for the previous year. Positive cash flow of HK\$10.4 million was achieved for the year. Basic earnings per share was 0.5 HK cent, compared to 0.3 HK cent of last year.

## BUSINESS REVIEW

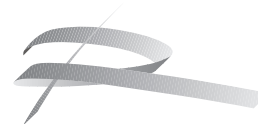
The sudden outbreak of SARS in Hong Kong and in the mainland China during the first quarter of the financial year and the hardships associated with it had a negative impact on nearly all sectors of the economy in the regions, and proven particularly disastrous to the entertainment and catering sectors. Our discotheque business in Shanghai was no exception to this sudden impact. We responded to this challenging moment with a number of proactive measures including escalating our renovation program, tightening operating expenses and re-designing advertising and promotional activities during the down time. The viral epidemic has disrupted our discotheque's first quarter result, but a rebound was observed in the subsequent quarters. Number of admissions jumped from 40,000 in the first quarter to over 60,000 in each of the successive quarters. Nevertheless, the discotheque business contributed only 6% of the Group's total revenue, the impact of SARS was not very significant to the Group.

The record distribution business was based in Japan and not affected by the viral epidemic. Since the acquisition of 80% interest of R&C Japan in October 2002, the business has delivered strong results in the full financial year and contributed almost 90% of the Group's total revenue. A schedule of record releases from, amongst others, Kuzu, Fayray and TM NETWORK sold strongly. The Group's continuous expansion of its sourcing network also contributed to the positive results. Content is at the core of the Group. We are developing and supplying music content of high quality. We are committed to providing consumers with the music they want, in the format they want, at a value they find compelling and we are working with a vast range wholesalers, retailers, distributors, hardware and software manufacturers to make that vision a reality.

## CHANGE OF BOARD MEMBERSHIP

In May 2004, the Chairman and executive director of the Group, Mr. Tetsuya Komuro, stepped down after six years of distinguished service. The Group would like to take this opportunity to express its thanks to Mr. Komuro for his valuable contribution to the Group. Mr. Komuro's resignation would not have material adverse impact on the operations of the Group as they have been well established. In November 2003, Mr. Mitsuo Sakauchi joined, bringing a wealth of valuable media, advertising, and consumer marketing and general management experience to bear on our strategic deliberations.





## **NEW SUBSTANTIAL SHAREHOLDER**

In May 2004, Faith, Inc. ("Faith") has acquired the Company's shares from Mr. Komuro. Immediately after the completion of the acquisition, Faith holds 17.05% of the existing issued share capital of the Company. Faith was established in 1992 in Nakagyo-ku, Kyoto, Japan and is a company with its shares listed on the Tokyo Stock Exchange Section 1. Faith supports business development for companies at each stage of the content distribution process, including telecommunications carriers, semiconductor and mobile phone vendors as well as content providers. Faith also provides sound technologies and audio format technologies along with business solutions for content service planning, creation and operation. In collaboration with Faith, we wish to further extend our presence in the "digital distribution business", an innovative business promoted by Faith, with the focus on entertainment contents across Asia.

## **OUTLOOK**

The better than expected performance of our record distribution business proves our success in identifying the acquisition target. Such favourable development has convinced us to continue to keep a lookout for synergistic acquisitions and investment opportunities that will help diversify our businesses. We have demonstrated that we have the resilience and flexibility to operate effectively and profitably in a range of market outcomes and we aim to make further progress in every part of our group.

In last year's annual report, I have mentioned that our next step was to establish a new discotheque in Asia. We still firmly believe that the China market will continue to grow at a faster pace than many parts of the world. The Group will focus on the development of its China business. It will leverage on its experience accumulated in the provision of music content services and the discotheque operation. With the global economy now on the rebound, the mainland is expected to undergo even better economic development coupled with a more sustainable pace of growth than before. We aim to gain a better understanding of our customers' needs in China before we invest.

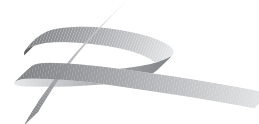
While the Group is actively pursuing new ventures, we also maintain our commitment to cost management and margin improvements. The Group remains assured of its proven track record. This record should provide our investors reassurance through the rest of the year and into the future.

May I also take this opportunity to thank the Board, all my colleagues, teams of producers and music talents for their dedication and hard work, and our shareholders and business partners for their support and collaboration in the past year. They have continued to demonstrate capacity for growing the Group and strengthening the foundations. Our achievements would not have been possible without the team.

**Takeyasu Hashizume**

*President*

28th June 2004



## FINANCIAL REVIEW

|  | Fourth Quarter<br>(Jan to Mar 2004) | Third Quarter<br>(Oct to Dec 2003) | Second Quarter<br>(Jul to Sept 2003) | First Quarter<br>(Apr to Jun 2003) |
|--|-------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
|  | HK\$'M                              | HK\$'M                             | HK\$'M                               | HK\$'M                             |
| Turnover                                   | 63.4                                | 67.3                               | 103.8                                | 14.8                               |
| Operating expenditures*                    | 63.4                                | 54.0                               | 83.5                                 | 32.1                               |
| Profit/(loss) from operations              | (1.4)                               | 12.0                               | 19.1                                 | (18.6)                             |
| Profit/(loss) attributable to shareholders | 0.6                                 | 8.2                                | 14.9                                 | (16.4)                             |

\* Cost of sales, selling and other operating expenses

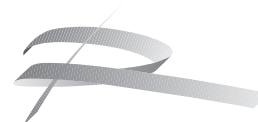
### Overall performance

The Group has achieved a double-digit increase in turnover during the year under review. With the established policy of seeking stable growth while exercising stringent risk control, the Group not only has achieved significant growths in both turnover and net profit, but has also achieved great improvements in risk control and cash flow management.

The Group recorded a profit before taxation of HK\$11.1 million for the year ended 31st March 2004, a 5% increase from HK\$10.6 million for the year ended 31st March 2003. Profit attributable to shareholders for the year was HK\$7.3 million, representing a 120% increase from HK\$3.3 million. Improvement in net profit of the Group during the year was the direct consequence of the consolidation of the results of R&C Japan and Rojam Disco in full year.

### Turnover and other revenue

The group recorded a total turnover and other revenue of approximately HK\$249.6 million for the year ended 31st March 2004, representing a growth of 91% from HK\$130.4 million in the previous year. The record distribution business was the largest revenue contributor at 90%, with music production business and discotheque business each contributing 4% and 6% respectively. Revenue generated in Japan represented 94% of total revenue, while operations in mainland China contributed 6%.



## **Segment results**

The organic growth of the record distribution business was strong as the Group continued to build more anchor customers and produced higher margin products, such as comedian audio-visual products. Turnover reached HK\$224.6 million, over 160% increase from HK\$85.1 million of the last year. The significant increase was mainly due to the consolidation of the results of R&C Japan for the full financial period, compared to 6-month period in last year. Segment profit amounted to HK\$26.2 million, a 19% decrease from HK\$32.4 million. The decrease in the segment profit was due to the fact that relatively more selling and distribution expenses were incurred for promotional activities during the year.

Despite strong operating performance in the record distribution sector, a drop in music production income had an unfavourable effect on the Group results. Due to the downward trend in music production, the Group's music production income declined to HK\$22.2 million, a 43% decrease from HK\$38.7 million in last year. Segment loss of HK\$4.9 million was recorded, compared to segment profit of HK\$1.2 million.

The revenue generated from the discotheque business was HK\$14.8 million. Excluding the goodwill amortisation charge of HK\$1.3 million, the segment operating profit amounted to HK\$2.1 million, doubled that of last year.

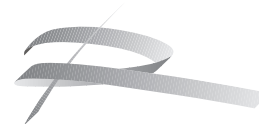
## **Cost of sales and operating expenses**

Cost of sales increased by 202% from HK\$45.5 million to HK\$137.5 million. Selling and distribution expenses increased by 87% from HK\$37.7 million to HK\$70.5 million. The increase reflected the growth of sales and was a direct consequence of the consolidation of R&C Japan for the full financial year.

The operating expenses decreased by 24% from HK\$32.9 million to HK\$25.0 million. The operating expenses decreased, despite the expansion in businesses and the effect of the full year consolidation of the subsidiaries acquired in the financial year 2002/2003.

Goodwill amortisation charges also increased from HK\$2.6 million to HK\$5.5 million, reflecting impact for the consolidation of results of R&C Japan and Rojam Disco in the full financial year.

The Group's operating expenses as a percentage of revenue was reduced from 25% to 10%, reflecting the Group's continuous efforts in cost rationalisation. A well-managed and competitive cost base has been established ready to promote further revenue growth.



## **LIQUIDITY AND FINANCIAL RESOURCES**

At 31st March 2004, the Group's total shareholders' funds amounted to approximately HK\$231.3 million as compared to HK\$225.0 million as at 31st March 2003. Total assets amounted to approximately HK\$298.4 million, of which current assets amounted to HK\$161.1 million. At 31st March 2004, the Group had current liabilities, non-current liabilities and minority interests of approximately HK\$64.2 million, HK\$0.9 million and HK\$1.9 million respectively.

The Group financed its operations with internally generated cash flows and the balance of proceeds from the placing of shares in May 2001. At 31st March 2004, cash and bank balances amounted to HK\$90.4 million, which consists of 19% in Hong Kong dollars, 63% in Japanese yen, 9% in Renminbi, and 9% held in other currencies. The Renminbi denominated balances were placed with licensed banks in The People's Republic of China ("PRC") and the conversion of these balances into foreign currencies is subject to the rules and regulation of foreign exchange control promulgated by the PRC government. During the year ended 31st March 2004, the Group had net cash inflow of HK\$45.4 million from its operations and net cash outflow of HK\$28.1 million from its investing activities. At 31st March 2004, the Group has no borrowing. The gearing ratio of the Group, calculated as non-current liabilities to shareholders' funds, was 0.

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES**

The Group's exposure to foreign currencies is limited to its investment in foreign subsidiaries, which are financed internally. At 31st March 2004, the Group has no outstanding foreign currency hedge contracts.

## **CHARGE ON GROUP ASSETS**

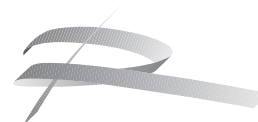
At 31st March 2004, the Group did not have any charge on its assets.

## **MATERIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENTS**

The Group did not have any plan for material investment, acquisition or disposal of material capital assets at 31st March 2004.

## **CONTINGENT LIABILITIES**

The Group had no material contingent liabilities at 31st March 2004.



## **EMPLOYEE INFORMATION**

At 31st March 2004, the Group had 89 full-time employees in Hong Kong, Japan and Shanghai. Staff costs, excluding Directors' emoluments, totalled HK\$17.3 million (2003: HK\$11.1 million). The Group's remuneration policy is basically determined by the performance of individual employee. Staff benefits, including medical coverage and provident funds are also provided to employees. The Group has also adopted a share option scheme whereby eligible employees of the Group may be granted options to subscribe for shares in the Company.

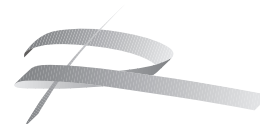
## **OPERATIONS REVIEW**

### **Record distribution**

The record distribution business reported revenue of HK\$224.6 million, more than 160% increase over the turnover of HK\$85.1 million recorded in last year. The increase was primarily attributable to the full year consolidation of R&C Japan, which was acquired in October 2002, compared to only six-month of consolidated result in previous year. The record distribution business contributed 90% of the total revenue, being the largest revenue generator of the Group. As a result of heavier promotional expenses incurred, segment profit was HK\$26.2 million, a 19% drop from HK\$32.4 million in last year.

This segment continued to produce and distribute audio and visual products under the Yoshimoto umbrella and win quality customers. It also consistently strived to address the rapidly changing market dynamics. Efforts to continue to identify and develop new uses for the Group's music were initiated throughout the year.

For the year under review, the Group released a total of 9 albums, 21 singles, 34 DVDs and 17 VHS. A number of popular titles were produced during the year. Songs produced are featured in a variety of television programmes. These television programmes included: "Gottsu-ee-Kanji", featuring Down Town; "Down Town DX", using the songs of route φ, "JAPAN COUNTDOWN", using the song of PENPALS as opening theme, "Ranpo R", based on Fayray's catalogues, and "Junk Sports" using the song of TM NETWORK as ending theme. In March, one of the Kuzu's records, "Subete ga boku no chikara ni naru!", was ranked number 1 in ORICON weekly chart. The record included a theme song of the popular television programme entitled "Sui-juu". During the year under review, the Group has signed up five artistes, namely Amy-N-Ryoo, Tamaki Hiroshi, The SCANTY, PENPALS and Imoto, and produced music recordings for them.

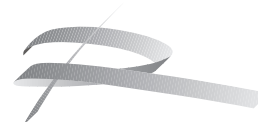


## OPERATIONS REVIEW *(Continued)*

### Record distribution *(Continued)*

A summary of the music records produced and distributed by the Group for the year ended 31st March 2004 is set out below.

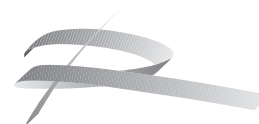
| Title                       | Artist                     | Released date | Format        |
|-----------------------------|----------------------------|---------------|---------------|
| Ninjo                       | Amy-N-Ryoo                 | 23/04/2003    | CD Album      |
| Ashita-e<br>明日へ             | Amy-N-Ryoo                 | 21/05/2003    | CD Maxi       |
| I need you in my life       | Aiko Katsumata<br>勝又亜依子    | 25/06/2003    | CD Maxi       |
| Michi<br>道                  | Takashi Utsunomiya<br>宇都宮隆 | 25/06/2003    | CD Maxi       |
| Painting                    | route φ                    | 23/07/2003    | CD Maxi       |
| UTA TO OTO                  | Ram Jam World              | 23/07/2003    | CD Album      |
| BLUE FOX                    | Yukari Obata<br>小畑由香里      | 30/07/2003    | CD Maxi       |
| Shiawase-no-Hyogen<br>幸せの表現 | Gaball (feat.Joanne)       | 06/08/2003    | CD Maxi       |
| Mabataki<br>マバタキ            | THE★SCANTY                 | 06/08/2003    | CD Maxi       |
| Musashi-to-Yuku<br>武蔵と行く    | Daisuke MiyaGawa<br>宮川大助   | 20/08/2003    | CD Maxi       |
| Musashi-to-Yuku<br>武蔵と行く    | Daisuke MiyaGawa<br>宮川大助   | 20/08/2003    | Cassette tape |



## OPERATIONS REVIEW *(Continued)*

### Record distribution *(Continued)*

| Title               | Artist             | Released date | Format   |
|---------------------|--------------------|---------------|----------|
| DANCE               | PENPALS            | 20/08/2003    | CD Maxi  |
| Wantok              | Takashi Utsunomiya | 03/09/2003    | CD Album |
|                     | 宇都宮隆               |               |          |
| LONELY              | Amy-N-Ryoo         | 25/09/2003    | CD Maxi  |
| Nakunayo            | HOUND DOG          | 25/09/2003    | CD Maxi  |
| 泣くなよ                |                    |               |          |
| ROCK YOU BABY       | PENPALS            | 22/10/2003    | CD Maxi  |
| BELIEVE ALBIREX MIX | PENPALS            | 22/10/2003    | CD Maxi  |
| Christmasile        | PENPALS            | 19/11/2003    | CD Maxi  |
| クリスマスマイル            |                    |               |          |
| cie la musica due   | Naoto Kine         | 19/11/2003    | CD Album |
| チェラ ムジカ デュエ         | 木根尚登               |               |          |
| Meccha☆Gracias      | Amy-N-Ryoo         | 14/01/2004    | CD Album |
| メツチャ☆グラシアス          |                    |               |          |
| Rock'em All         | PENPALS            | 21/01/2004    | CD Album |
| 11 Rooms for sky    | Hound Dog          | 18/02/2004    | CD Album |
| Negai               | Fayray             | 18/02/2004    | CD Maxi  |
| 願い                  |                    |               |          |
| NETWORK             | TM NETWORK         | 24/02/2004    | CD Maxi  |
| Imouto              | Imouto             | 03/03/2004    | CD Maxi  |
| 妹                   | いもうと               |               |          |


**OPERATIONS REVIEW** (Continued)

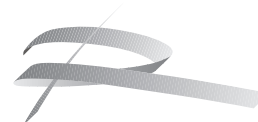
**Record distribution** (Continued)

| Title  | Artist     | Released date | Format       |
|--|------------|---------------|--------------|
| Subete ga boku no chikara ni naru!<br>(Special edit) | Kuzu       | 17/03/2004    | CD Maxi +DVD |
| 全てが僕の力になる! (特別盤)                                     | くず         |               |              |
| Subete ga boku no chikara ni naru!                   | Kuzu       | 17/03/2004    | CD Maxi      |
| 全てが僕の力になる! (通常盤)                                     | くず         |               |              |
| look into my eyes                                    | Fayray     | 17/03/2004    | CD Maxi      |
| Ranpo R Soundtrack                                   | VA         | 17/03/2004    | CD Album     |
| 乱歩Rサウンドトラック  |            |               |              |
| NETWORK – Easy Listening                             | TM NETWORK | 24/03/2004    | CD Album     |

A summary of the audio-visual products produced and distributed by the Group for the year ended 31st March 2004 is set out below.

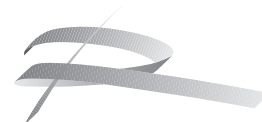
| Title          | Artist             | Released date | Format |
|----------------|--------------------|---------------|--------|
| LOVE-iCE       | Takashi Utsunomiya | 23/04/2003    | DVD    |
|                | 宇都宮隆               |               |        |
| TEN to TEN     | Takashi Utsunomiya | 23/04/2003    | DVD    |
|                | 宇都宮隆               |               |        |
| MANZAI drive 2 | Shinagawa-Shoji    | 28/05/2003    | DVD    |
| MANZAI ドライブ 2  | 品川庄司               |               |        |
| MANZAI drive 2 | Shinagawa-Shoji    | 28/05/2003    | Video  |
| MANZAI ドライブ 2  | 品川庄司               |               |        |
| Tora           | Koji Chihara       | 28/05/2003    | DVD    |
| 囚              | 千原浩史               |               |        |




**OPERATIONS REVIEW** (Continued)

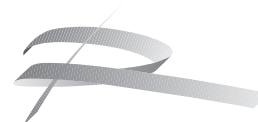
**Record distribution** (Continued)

| Title  | Artist              | Released date | Format |
|--|---------------------|---------------|--------|
| Tora   | Koji Chihara        | 28/05/2003    | Video  |
| 囚  | 千原浩史                |               |        |
| Shibu-kou Bakuhatu                           | Harigane-Rock       | 25/06/2003    | DVD    |
| 渋谷爆発   | ハリガネロック             |               |        |
| Shibu-kou Bakuhatu                           | Harigane-Rock       | 25/06/2003    | Video  |
| 渋谷爆発   | ハリガネロック             |               |        |
| Yasashisa-Cardigan                           | Kokoriko            | 25/06/2003    | DVD    |
| 優しさカーディガン                                    | ココリコ                |               |        |
| Yasashisa-Cardigan                           | Kokoriko            | 25/06/2003    | Video  |
| 優しさカーディガン                                    | ココリコ                |               |        |
| Yoshimoto Shinkigeki Gyagu<br>100 Renpatsu 2 | Yoshimoto Comedians | 25/06/2003    | DVD    |
| 保存版 吉本新喜劇<br>ギャグ100連発 2                      | 吉本新喜劇               |               |        |
| Yoshimoto Shinkigeki Gyagu<br>100 Renpatsu 3 | Yoshimoto Comedians | 25/06/2003    | DVD    |
| 保存版 吉本新喜劇<br>ギャグ100連発 3                      | 吉本新喜劇               |               |        |
| Gottsu-ee-Kanji #1                           | Down Town           | 28/06/2003    | DVD    |
| ごっつええ感じ #1                                   | ダウンタウン              |               |        |
| Painting                                     | route φ             | 23/07/2003    | DVD    |
| Kyodai-Genka                                 | Nakagawa-ke         | 30/07/2003    | DVD    |
| 兄弟喧嘩   | 中川家                 |               |        |


**OPERATIONS REVIEW** (Continued)

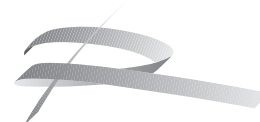
**Record distribution** (Continued)

| Title                  | Artist            | Released date | Format |
|------------------------|-------------------|---------------|--------|
| Kyodai-Genka           | Nakagawa-ke       | 30/07/2003    | VHS    |
| 兄弟喧嘩                   | 中川家               |               |        |
| Hyaku-Shiki            | 2Cho-Kennju       | 30/07/2003    | DVD    |
| 百式                     | 2丁拳銃              |               |        |
| Hyaku-Shiki            | 2Cho-Kennju       | 30/07/2003    | VHS    |
| 百式                     | 2丁拳銃              |               |        |
| Hataraku-Ossann Ningyo | Hitoshi Matsumoto | 06/08/2003    | DVD    |
| 働くおっさん人形               | 松本人志              |               |        |
| Gottsu-ee-Kanji #2     | Down Town         | 27/08/2003    | DVD    |
| ごっつええ感じ #2             | ダウンタウン            |               |        |
| Juu-ka                 | 2Cho-Kennju       | 27/08/2003    | DVD    |
| 銃歌                     | 2丁拳銃              |               |        |
| Juu-ka                 | 2Cho-Kennju       | 27/08/2003    | VHS    |
| 銃歌                     | 2丁拳銃              |               |        |
| Gottsu-ee-Kanji #3     | Down Town         | 24/09/2003    | DVD    |
| ごっつええ感じ #3             | ダウンタウン            |               |        |
| Gottsu-ee-Kanji #4     | Down Town         | 24/09/2003    | DVD    |
| ごっつええ感じ #4             | ダウンタウン            |               |        |
| 8MEN                   | Shinagawa Shoji   | 25/09/2003    | DVD    |
|                        | 品川庄司              |               |        |
| 8MEN                   | Shinagawa Shoji   | 25/09/2003    | VHS    |
|                        | 品川庄司              |               |        |


**OPERATIONS REVIEW** (Continued)

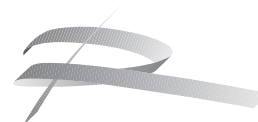
**Record distribution** (Continued)

| Title                       | Artist          | Released date | Format |
|-----------------------------|-----------------|---------------|--------|
| Robert Live – Tanoshimouze! | Robert          | 25/09/2003    | DVD    |
| ロバートライブ 楽しもうぜ!              | ロバート            |               |        |
| Robert Live – Tanoshimouze! | Robert          | 25/09/2003    | VHS    |
| ロバートライブ 楽しもうぜ!              | ロバート            |               |        |
| Ocharake Sausage            | Inparusu        | 29/10/2003    | DVD    |
| おちゃらけソーセージ                  | インパルス           |               |        |
| Ocharake Sausage            | Inparusu        | 29/10/2003    | VHS    |
| おちゃらけソーセージ                  | インパルス           |               |        |
| Futari Musuko               | Nakagawa-ke     | 29/10/2003    | DVD    |
| 二人息子                        | 中川家             |               |        |
| Futari Musuko               | Nakagawa-ke     | 29/10/2003    | VHS    |
| 二人息子                        | 中川家             |               |        |
| Jetball Hour                | Football Hour   | 26/11/2003    | DVD    |
| ジェットボールアワー                  | フットボールアワー       |               |        |
| Jetball Hour                | Football Hour   | 26/11/2003    | VHS    |
| ジェットボールアワー                  | フットボールアワー       |               |        |
| Dynamite Kansai             | Omnibus         | 26/11/2003    | DVD    |
| ダイナマイト関西                    |                 |               |        |
| M-1 Grand prix 2001         | Various Artists | 17/12/2003    | DVD    |
| M-1 グランプリ2001               |                 |               |        |
| M-1 Grand prix 2002         | Various Artists | 17/12/2003    | DVD    |
| M-1 グランプリ2002               |                 |               |        |


**OPERATIONS REVIEW** (Continued)

**Record distribution** (Continued)

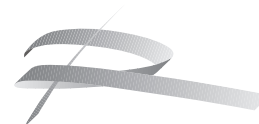
| Title   | Artist                      | Released date | Format |
|---|-----------------------------|---------------|--------|
| License   | License                     | 25/12/2003    | DVD    |
| ライセンス   | ライセンス                       |               |        |
| License   | License                     | 25/12/2003    | VHS    |
| ライセンス   | ライセンス                       |               |        |
| Gottsu-ee-Kanji #5                                | Down Town                   | 25/12/2003    | DVD    |
| ごっつええ感じ #5  | ダウンタウン                      |               |        |
| 俺道  | Dainoji                     | 28/01/2004    | DVD    |
|   | ダイノジ                        |               |        |
| 俺道  | Dainoji                     | 28/01/2004    | VHS    |
|   | ダイノジ                        |               |        |
| Puropera wo tometa,<br>boku no koe wo kiku tameni | Chihara Kyodai/<br>Watanabe | 25/02/2004    | DVD    |
| プロペラを止めた 僕の声を聞くために                                | 千原兄弟/渡辺鐘                    |               |        |
| Puropera wo tometa,<br>boku no koe wo kiku tameni | Chihara Kyodai/<br>Watanabe | 25/02/2004    | VHS    |
| プロペラを止めた 僕の声を聞くために                                | 千原兄弟/渡辺鐘                    |               |        |
| Circle S  | Plan 9                      | 25/02/2004    | DVD    |
| サークル S  | プラン 9                       |               |        |
| Circle S  | Plan 9                      | 25/02/2004    | VHS    |
| サークル S  | プラン 9                       |               |        |
| SUMMER TOUR 03-BLUE<br>JOURNEY-8.20 SHIBUYA AX    | RUN&GUN                     | 03/03/2004    | DVD    |



## OPERATIONS REVIEW *(Continued)*

### Record distribution *(Continued)*

| Title  | Artist          | Released date | Format       |
|--|-----------------|---------------|--------------|
| Ranpo R Vol.1  | VA              | 10/03/2004    | DVD          |
| 乱歩R Vol.1  |                 |               |              |
| Ranpo R Vol.1  | VA              | 10/03/2004    | VHS          |
| 乱歩R Vol.1  |                 |               |              |
| Subete ga boku no chikara ni naru!<br>(Special edit) | Kuzu            | 17/03/2004    | CD Maxi +DVD |
| 全てが僕の方になる! (特別盤)                                     | くず              |               |              |
| Konto Drive  | Shinagawa Shoji | 24/03/2004    | DVD          |
| コントドライブ  | 品川庄司            |               |              |



## OPERATIONS REVIEW *(Continued)*

### Music production

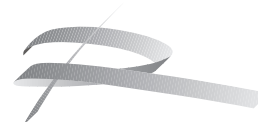
Revenue from the music production business dropped by 43% from HK\$38.7 million to HK\$22.2 million. Segment loss was HK\$4.9 million, compared to profit of HK\$1.2 million last year. The intense competition in the music production market in Japan has resulted the decrease in number and average contract size of music projects undertaken. To enhance revenue, the Group has also rented the Rojam Studio and provided advisory services in recording and editing to other record companies. The table below sets out the major projects undertaken by the Group during the year ended 31st March 2004.

| Month of the release | Record company                               | Title                   | Product                | Artist                                  |
|----------------------|--|-------------------------|------------------------|---|
| 2003                 |  |                         |                        |   |
| June                 | Sony Music Entertainment Limited<br>Avex Inc | PROUD OF YOU<br>be true | CD Single<br>CD Single | Shiina Hekiru<br>Cyber X feat,<br>KEIKO |
| September            | Avex Inc                                     | global trance best      | CD and DVD             | globe                                   |
| November             | Sony Music Entertainment Limited             | Standby!                | CD Single              | Shiina Hekiru                           |
| December             | Avex Inc<br>Sony Music Records Inc.          | KCO<br>Color            | CD Single<br>CD Single | Keiko (globe)<br>Shiina Hekiru          |
| 2004                 |  |                         |                        |   |
| March                | Sony Music Records Inc.                      | reverence               | CD Single              | Shiina Hekiru                           |

### Rojam Disco

The discotheque business reported revenue of HK\$14.8 million with a segment profit of HK\$0.8 million, compared to revenue of HK\$8.8 million and a segment loss of HK\$0.9 million in previous year. The increase was also attributable to the full year consolidation of Rojam Disco compared to only six-month consolidation result in last year.

During the first quarter, the SARS crisis has drastically impacted the turnover of Rojam Disco. The turnover dropped by over 40% on average in the first quarter when compared to the previous quarter. To counteract the hostile market conditions, Rojam Disco adopted a more defensive approach during the first quarter, focusing on cost control including tightening operating expenses and re-designing advertising and promotional activities. Rojam Disco also conducted a full review of its hardware and software, and speeded up the renovation program. In August 2003, the major renovation programme was complete. The response from customers was encouraging. The admissions grew simultaneously.



## **OPERATIONS REVIEW** *(Continued)*

### **Rojam Disco** *(Continued)*

The “5th Anniversary X’mas Eve Party”, the “New Year’s Eve Party” and the “Valentine’s Day” continued to be the most popular functions during the year. Rojam Disco has established itself as a popular venue for festive fun in Shanghai. In addition to the Japanese DJ’s stationed there, Rojam Disco also invited famous DJs from different parts of the world to perform throughout the year. These performers included Mr. John Digwee, a pioneer of Progressive House music and DJ who was ranked the world’s top two; and DJ Lisa Lashes, the highest placed female DJ in the world. Continuous enrichment of appealing new events and entertainment features to refresh customers’ entertainment experiences definitely increased the competitive edge of Rojam Disco, successfully attracting a new array of customers including first-time disco-goers and both local and overseas tourists.

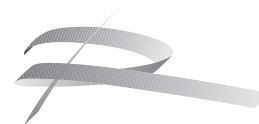
## **PROSPECTS**

The record distribution business remains the focus of the Group. The Group shall also develop and identify new uses for its music content. Apart from developing higher margin business, the Group continues to actively evaluate synergistic mergers and acquisition opportunities to accelerate its growth.

Further development of the China dimension of the Group’s business is also a top priority. Its mainland ambitions coincide with an upsurge in the number of key international events being held on the mainland. Shanghai is on the Formula One starting grid in September 2004 and companies are racing for market share in the lead-up to Beijing’s summer Olympic Games in 2008. There are more interest in and consumption of music than ever before, and there is a tremendous opportunity ahead for the Group to capitalise on this demand.

While the management is encouraged by the Group’s annual results, it is also cautious about the uncertainties in the market. The Group will continue to adhere to its strategy of building a solid foundation and meeting challenges proactively. By strengthening its internal management and adopting stringent risk control, the Group will build on those foundations to seek for steady and healthy progress.

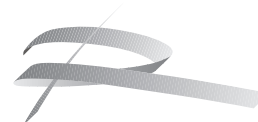
# Comparison of Business Objectives with Actual Business Progress



| <b>Business objective as stated in the prospectus dated 24th May 2001</b>   | <b>Actual business progress in respect of the year ended 31st March 2004</b>  |
|---|---|
| <b>1. Expand the Group's customer base and enhance its core business operations of music production by building up its business alliance with major players in the entertainment industry</b> |   |
| Enter into not less than 2 producer service contracts   | The Group has not entered into any producer service contract during the year under review. Due to the relative keen competition in the music production business, the Group has been cautious in committing itself in entering into new producer service contract as well as other service contracts. Besides, the Group has shifted its resources to its record distribution business, which now becomes the largest revenue contributor of the Group. |
| Enter into not less than 3 contracts with software companies, computer and games companies, etc. for the provision of music content production services                                       | The Group has not entered into any production contracts with software companies, computer and games companies. However, the Group will establish a strategic tie-up with Faith, Inc., a new strategic shareholder of the Group, for the interactive content distribution business.  |
| Introduce not less than 1 artiste selected from the Group's audition system to contracted record companies  | The artiste audition was carried out in the television programme "Matsumoto Shinsuke" produced by Yoshimoto. During the year under review, the Group has signed up two new artistes selected from this programme, namely Tamaki Hiroshi and Imouto.   |
| <b>2. Strengthen the Group's music production capacity through the sourcing of new talents</b>  |   |
| Produce not less than 27 records for contracted record companies  | Produced 7 records for the contracted record companies. During the year under review, the Group reallocated the resources to its record distribution business to release those records under its label with higher profit margin.   |
| Release not less than 12 records under the Group's label  | Released over 80 records under the label of R&C Japan during the year under review.   |
| Recruit not less than 3 producers   | The Group is of the view that a strong team of producers has already been assembled in the Rojam Studio, therefore, no new producer was recruited.  |

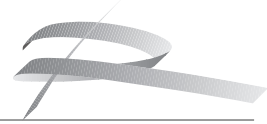


# Comparison of Business Objectives with



## Actual Business Progress *(Continued)*

| <b>Business objective as stated in the prospectus dated 24th May 2001</b>   | <b>Actual business progress in respect of the year ended 31st March 2004</b>  |
|---|---|
| <b>3. Geographical expansion in Asia</b>  |   |
| <b>Taiwan</b><br>Explore other music related business opportunities   | The Group has so far not identified commercially viable investment opportunities but will continue to explore in this region.   |
| Engage in not less than 1 music production or related project   | Engagement of new projects was postponed until further business development in this region.   |
| <b>South Korea</b><br>Release not less than 7 records under the Group's co-brand label  | The Group has not yet released any records in South Korea. During the year, the Group has tried to seek for a suitable local partner to expand its business.                    |
| <b>Mainland China</b><br>Engage in not less than 2 music production or related projects   | In addition to its discotheque business, the Group is discussing with certain local partners to explore co-operation opportunity, but no agreement has yet been reached.        |
| <b>4. Increase the Group's current level of recognition and publicity by investing in business development and marketing</b>                    |   |
| Sponsor or participate in television programmes, activities and events in Asia to promote the Group's music, artistes, producers and businesses | The Group has promoted its music, artistes, producers and business through selected media channels. They were also promoted in the television programmes produced by Yoshimoto. |
| <b>5. Exploitation of the Internet media</b>  |   |
| <b>Audition</b><br>Conduct audition for artistes and producers  | Such audition was carried out in the Yosimoto's television programmes (refer to 1 above).   |
| <b>Merchandise sales</b><br>Release not less than 2 major feature products to be sold via the Group's music entertainment portal                | In view of the weaker performance of the consumer market, the Group has adopted a cautious approach in releasing additional feature product during the year under review.       |
| <b>Music learning center</b><br>Continue to expand the student base of the music learning centre  | Upon the completion of the market research, the Group is of the view that music learning centre is not a suitable project for the Group to launch at this stage.                |



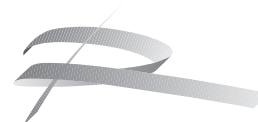
## EXECUTIVE DIRECTORS

**Mr. Takeyasu Hashizume**, aged 56, the President of the Group, joined the Group in October 2002. He is responsible for the Group's overall management, operations and strategic planning. He has over 30 years of experience in the music and entertainment business. After he graduated from Waseda University, Japan in 1972, Mr. Hashizume joined Sony Music Entertainment (Japan) Inc. (formerly known as CBS/Sony), where he was responsible for production and marketing, and had engaged in production involving a number of popular singers such as Saori Minami, Momoe Yamaguchi, TUBE, THE BOOM, Hiromi Go and NAHKI&DIANA KING. In 1996, Mr. Hashizume became the President of Eastwest Japan, Inc. (currently known as Warner Entertainment Japan, Inc.), where he was responsible for production involving Towa Tei, PENICILIN and Dir en grey. Mr. Hashizume joined R&C Japan Ltd., as a Director in May 2001, and has since led several projects such as "TK's Gaball", "TX ASAYAN" audition, "Aiko Katsumata", "Sayaka Kamiyama" and the World-cup project "ULTRAS 2002".

**Mr. Tetsuo Mori**, aged 54, the Executive Vice President (Business Development) of the Group, has joined the Group since November 2001. He is responsible for the Group's overall public relations and marketing, entertainment operations and business development of the Group in the Greater China region. He has over 20 years' experience in the music and entertainment industry. Mr. Mori joined Sony Music Entertainment (Japan) Inc. in 1978. He was the Director of Sony Music Entertainment (Hong Kong) Limited from 1991 to 1995. He was also the first Chief Representative of Sony Music Entertainment (Japan) Hong Kong office from 1992 to 1996, and was responsible for the marketing plan and promotion of Japanese artistes, such as Mika Chiba, Mayumi Itsuwa and "D-Project", in the Asian countries.

**Mr. Osamu Nagashima**, aged 48, the Executive Vice President (Asia) of the Group, has joined the Group since November 2001. He is responsible for the Group's music production, studio management and marketing in Japan. Mr. Nagashima graduated from Meiji University in 1980 and joined Warner Entertainment Japan, Inc. (formerly known as Warner Pioneer, Inc.). He has more than 20 years' experience in international and domestic music business. Prior to joining the Group, Mr. Nagashima was the Executive Vice President of Eastwest Japan, Inc.

**Mr. Mitsuo Sakauchi**, aged 47, the Executive Vice President (Japan) of the Group, is responsible for the Group's business operations in Japan. Mr. Sakauchi has over 20 years of experience in the marketing and promotion of music records. After he graduated from Nihon University, Japan in 1980, Mr. Sakauchi joined For Life Music Entertainment Inc. ("For Life Music", formerly known as For Life Record Inc.), where he was involved in the promotion of a number of popular artists, such as Yosui Inoue, Takuro Yoshida, Hitoshi Komuro, Tsuyoshi Nagabuchi, Anri, Miki Imai, Ryuichi Sakamoto, ZOO and Shinji Harada. Before he joined the Group in November 2003, Mr. Sakauchi was a director of For Life Music, in charge of promotion since 1996 and in charge of marketing since 2000.



(Continued)

## EXECUTIVE DIRECTORS (Continued)

**Mr. Arihito Yamada**, aged 41, the Executive Vice President (Finance) of the Group, is responsible for the overall management of the Group in the areas of finance, legal, administration and corporate development. Mr. Yamada was educated in Japan and has a Bachelor of Economics degree from Keio University, Japan and a Master of Laws degree from Tsukuba University, Japan. He is a member of the Institute of Certified Public Accountants in Japan and has 20 years of experience in accounting and tax planning in PricewaterhouseCoopers including 3 years in Los Angeles office, specialising in the area of mergers and acquisitions, finance and tax planning of the entertainment industry. Prior to joining the Group in July 2000, Mr. Yamada was a partner of PricewaterhouseCoopers Tokyo office and the Chief Executive Officer of PricewaterhouseCoopers Entertainment Ltd.

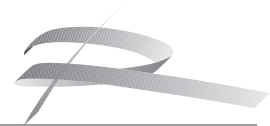
**Mr. Yukitsugu Shimizu**, aged 62, joined the Group in October 2002. After graduated from Osaka City University, Japan in 1965, Mr. Shimizu joined UFJ Bank Limited (formerly known as The Sanwa Bank, Limited), and then he had been working in the banking industry for 28 years. In 1993, Mr. Shimizu joined Yoshimoto Kogyo Co., Ltd. ("Yoshimoto") as a General Manager of the Accounting Department and was appointed as a Director in the same year. Since 2001, Mr. Shimizu has been the Director and General Manager of the Tokyo Production Control Department of Yoshimoto.

**Mr. Hiroshi Osaki**, aged 50, joined the Group in October 2002. Mr. Osaki has over 25 years' experience in entertainment business with Yoshimoto since his graduation from Kansai University, Japan in 1978. Mr. Osaki has substantial experience in the artiste management industry. He has also been producing numerous TV programs and has established the position of Yoshimoto in the industry as the largest TV program producing company as well as began the music business and made it successful. Mr. Osaki was appointed as a General Producer of Yoshimoto's Tokyo Branch Office in 1995 and became the first CEO of Fandango, Inc., which is a joint venture between KDDI Corporation and Yoshimoto. Since 2001, he has been the Director and General Manager of Yoshimoto.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Seiichi Nakaoda**, aged 39, was appointed as an Independent Non-executive Director in February 2001. He is a member of The Japanese Institute of Certified Public Accountants and has over 15 years' experience in finance and accounting practice. Mr. Nakaoda is the managing Director of an accounting consultancy firm in Hong Kong.

**Mr. Yeung Mui Kwan, David**, aged 48, was appointed as an Independent Non-executive Director in April 2001. He is a Fellow of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants and has over 20 years' experience in finance and accounting practice. Mr. Yeung is now practising in his own accounting consultancy firm.



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## SENIOR MANAGEMENT

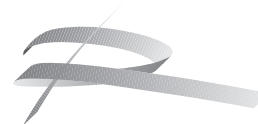
**Ms. Hung Shi Wei, Halina**, aged 32, Legal and Special Project Advisor, has joined the Group since November 2000. She is a barrister and solicitor admitted to practise in Victoria, Australia, and is responsible for the Group's legal matters and corporate development projects. Ms. Hung graduated from Monash University, Australia with a Bachelor of Economics Degree and a Bachelor of Laws Degree. She holds a Graduate Diploma in Applied Finance and Investments, and has over 8 years of experience in legal compliance, business development and corporate finance.

**Ms. Cheng Kit Sum**, aged 32, Financial Controller, has joined the Group since May 2000. She is responsible for managing the Group's finance and accounting processes, maintaining finance control and performing statutory financial reporting. Ms. Cheng holds a Bachelor of Arts Degree in Accountancy and a Master of Science Degree in Finance. She is a Fellow of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Ms. Cheng has 10 years of experience in financial management, accounting and auditing. Prior to joining the Group, she worked for PricewaterhouseCoopers in Hong Kong.

**Mr. Keiichi Uezumi**, aged 34, General Manager of Business Planning, has joined the Group since July 2000. He was qualified as a Japanese Certified Public Accountant (CPA) in 1996, and passed the US CPA Examination in 2000. He holds a Bachelor Degree of Economics from Seikei University. Mr. Uezumi has over 10 years of experience in accounting and tax planning, in PricewaterhouseCoopers including 5 years in Tokyo office and 3 years in Los Angeles office. He is a specialist in finance and international tax planning in the entertainment industry and Internet business. Prior to joining the Group, Mr. Uezumi was a manager of PricewaterhouseCoopers' Tokyo office.

## COMPANY SECRETARY

**Ms. Etsuko Hoshiyama**, aged 42, has joined the Group since March 2000. She holds a Bachelor Degree of Law from Kwansai Gakuin University, Japan and a Master Degree of Laws in Taxation from University of Denver, USA. She is an associate member of the American Institution of Certified Public Accountants and the Hong Kong Society of Accountants. Before joining the Group, Ms. Hoshiyama was a tax manager of PricewaterhouseCoopers in Hong Kong. She has over 10 years of experiences in tax, business consulting, and business development.



The Directors submit their report together with the audited accounts for the year ended 31st March 2004.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION**

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 12 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated profit and loss account on page 45.

The Directors do not recommend the payment of a dividend.

## **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 19 to the accounts.

## **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

## **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 18 to the accounts.

## **DISTRIBUTABLE RESERVES**

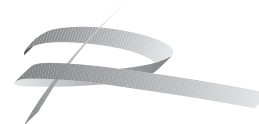
At 31st March 2004, the Company had distributable reserves of approximately HK\$19.6 million (2003: HK\$30.3 million) represented by share premium and accumulated losses of the Company. Under the Companies Law (Revised) of the Cayman Islands, share premium of the Company is distributable to the members of the Company, subject to solvency tests.

## **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March 2004.



## **DIRECTORS**

The Directors during the year and up to the date of this report were:

### **Executive Directors**

Mr. Takeyasu Hashizume

Mr. Tetsuo Mori

Mr. Osamu Nagashima

Mr. Mitsuo Sakauchi (appointed on 12th November 2003)

Mr. Arihito Yamada

Mr. Yukitsugu Shimizu

Mr. Hiroshi Osaki

Mr. Tetsuya Komuro (resigned on 21st May 2004)

### **Independent non-executive Directors**

Mr. Seiichi Nakaoda

Mr. Yeung Mui Kwan, David

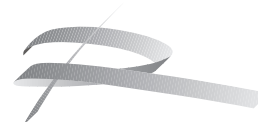
In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. Tetsuo Mori, Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

### **DIRECTORS' SERVICE CONTRACTS**

Each of the executive and independent non-executive Directors has entered into a service agreement with the Company.

Each of the service agreements with Mr. Takeyasu Hashizume, Mr. Tetsuo Mori, Mr. Osamu Nagashima, Mr. Mitsuo Sakauchi, Mr. Arihito Yamada, Mr. Yukitsugu Shimizu, Mr. Hiroshi Osaki, Mr. Seiichi Nakaoda and Mr. Yeung Mui Kwan, David is of an initial duration of two years. In the case of Mr. Takeyasu Hashizume, his service agreement commenced on 27th February 2003; in the case of Mr. Tetsuo Mori, his service agreement commenced on 7th January 2002; in the case of Mr. Osamu Nagashima, his service agreement commenced on 27th February 2003; in the case of Mr. Mitsuo Sakauchi, his service agreement commenced on 12th November 2003; in the case of Mr. Arihito Yamada, his service agreement commenced on 1st July 2000; in the case of Mr. Yukitsugu Shimizu and Mr. Hiroshi Osaki, their service agreements commenced on 10th October 2002; in the case of Mr. Seiichi Nakaoda, his service agreement commenced on 6th February 2001; and in the case of Mr. Yeung Mui Kwan, David, his service agreement commenced on 1st April 2001. It is provided in each of these service agreements that their terms of service shall continue until terminated by either party giving to the other not less than three months' prior written notice, such notice to expire upon or after the initial term of two years. Up to the date of this report, the terms of service agreements for those Directors whose initial terms of two years have lapsed, remain in force.

Save as disclosed, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).



## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Brief biographical details of Directors and senior management are set out on pages 24 to 26.

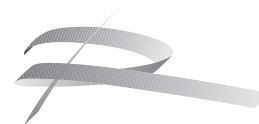
## **DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS**

During the year, the Group had entered into transactions with certain Directors or companies related to them. Details of the material related party transactions and the Directors' interests therein are set out in note 24 to the accounts. Certain of the transactions disclosed in note 24 also constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The information required to be disclosed in respect of these connected transactions, in accordance with Chapter 20 of the GEM Listing Rules, is set out below.

### **(a) Master music production agreement**

Pursuant to a master music production agreement dated 10th October 2002 and entered into between R&C Asia Ltd. ("R&C Asia") (formerly known as Rojam Japan Limited) and R&C Japan Ltd. ("R&C Japan"), R&C Asia will produce (including the rendition of producer services, covering planning, review, selection of songs/songwriters, performance, attendance at recording/editing, instruction to artists, sound quality adjustment, inspection and other related matters) master-tapes of such artists as designated by R&C Japan and transfer such master-tapes to R&C Japan. This agreement and the maximum aggregate amount of all future transactions to be carried out in accordance with the terms of this agreement of HK\$12,000,000 for the period from 10th October 2002 to 31st March 2003 and HK\$24,000,000 for each of the two years ending 31st March 2005 (the "cap"), have been approved by the independent shareholders of the Company by way of poll at the extraordinary general meeting of the Company held on 7th October 2002 (the "EGM"). The term of this agreement is from 10th October 2002 to 31st March 2005, and thereafter renewable by mutual agreement for consecutive three-year periods provided that the GEM Listing Rules are complied with. As the annual cap is greater than the higher of HK\$10,000,000 or 2.5% of each of the percentage ratios (other than the profits ratio) on an annual basis of the Company, this agreement and the cap are subject to review and re-approval by way of poll by the independent shareholders of the Company at the annual general meeting of the Company for as long as the transactions under this agreement continue.

Under this agreement, R&C Japan is liable to pay R&C Asia (i) producer royalty per copy of recording calculated as follows: (retail price net of consumption tax minus container charge (being 15% of the retail price net of consumption tax) for the container in which the record is packaged) times producer royalty rate (up to a maximum of 5%, depending on the relevant artist) times sales quantity (being 80% of the actual total shipment in numbers from the sales office of the record company that R&C Japan entrusts its distribution, excluding all the records distributed for promotion or advertising or those for which R&C Japan will not receive income); and (ii) production costs for the production of the master-tapes, being R&C Asia's out-of-pocket expenses relating to the production, plus its administration costs which is fixed as 15% of such out-of-pocket expenses. Producer royalty will accrue in respect of any and all the audio and audio-visual recordings embodying the master-tapes produced by R&C Asia on a perpetual basis as copies of the relevant music records are sold, even in the event that this agreement expires or is terminated. Further details of this agreement are contained in the circular of the Company dated 16th September 2002 (the "Circular").



## **DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS** *(Continued)*

### **(a) Master music production agreement** *(Continued)*

The aggregate amount of producer royalty and production costs received by R&C Asia under this agreement for the year ended 31st March 2004 was approximately HK\$13,201,000. (2003: HK\$1,693,000).

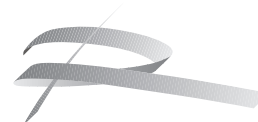
The independent non-executive Directors have reviewed the transactions carried out in accordance with this agreement for the year ended 31st March 2004 and formed the opinion that the Company should continue with this agreement. An ordinary resolution will be proposed at the forthcoming annual general meeting of the Company to re-approve this agreement and the cap by way of poll by the independent shareholders of the Company.

### **(b) Master artist performance agreement**

Pursuant to a master artist performance agreement dated 10th October 2002 and entered into between R&C Japan and Yoshimoto Kogyo Co., Ltd. ("Yoshimoto"), Yoshimoto will procure artists or groups of artists managed by Yoshimoto and nominated by R&C Japan from time to time to perform to enable the reproduction and distribution of records (which include, but not limited to, any analog disc records, compact discs, minidiscs, digital audio discs and recorded tapes) or videogram (which includes, but not limited to, any video discs, video tapes or any other tangible medium for the purpose of playing back of visual or audio-visual recordings). This agreement and the cap of HK\$2,000,000 for the period from 10th October 2002 to 31st March 2003 and HK\$4,000,000 for each of the two years ending 31st March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM. The term of this agreement is from 10th October 2002 to 31st March 2005, and thereafter renewable by mutual agreement for consecutive three-year periods provided that the GEM Listing Rules are complied with. Under this agreement, R&C Japan is liable to pay Yoshimoto artist royalties in connection with the sales of the audio and audio-visual recordings as follows: retail price net of consumption tax minus container charge (being 15% of the retail price net of consumption tax) for the container in which the record is packaged) times artist royalty rate (between 1% to 3%, depending on the relevant artist) times sales quantity (being 80% of the total shipment of audio and audio-visual recordings in numbers from the distributor's warehouse, taking into account the expected return of goods). R&C Japan is liable to pay artist royalties for as long as the sales of the audio and audio-visual recordings subject to this agreement continue on a perpetual basis, even in the event that this agreement expires or is terminated. Further details of this agreement are contained in the Circular.

The aggregate amount of artist royalties paid to Yoshimoto under this agreement for the year ended 31st March 2004 was approximately HK\$3,877,000 (2003: HK\$1,070,000).





## **DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS** *(Continued)*

### **(c) Sub-lease agreements**

Pursuant to a sub-lease agreement dated 29th March 2002 and entered into between R&C Japan and Yoshimoto, R&C Japan will sub-let from Yoshimoto office premises with a total floor area of around 117.4 square metres located in an office building (the "Building") in Tokyo. The term of this agreement is from 1st April 2002 to 31st March 2005, subject to termination by Yoshimoto giving a 3-month prior notice to R&C Japan in the event of termination of the head lease (the "Head Lease") entered into between Yoshimoto and a third party for use of the office premises in the Building. Under this agreement, R&C Japan is liable to pay Yoshimoto rent of JPY830,000 per month (subject to adjustments in accordance with changes in rent or other fees payable under the Head Lease), and electricity and water charges.

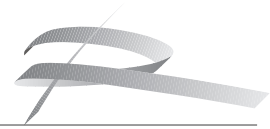
Pursuant to a sub-lease agreement dated 10th October 2002 and entered into between R&C Asia and Yoshimoto, R&C Asia will sub-let from Yoshimoto office premises with a total floor area of around 66 square metres located in the Building. The term of this agreement is from 10th October 2002 to 31st March 2005, subject to termination by Yoshimoto giving a 3-month prior notice to R&C Asia in the event of termination of the Head Lease. Under this agreement, R&C Asia is liable to pay Yoshimoto rent of JPY600,000 per month (subject to adjustments in accordance with changes in rent or other fees payable under the Head Lease), and electricity and water charges.

These agreements and the cap of HK\$1,500,000 for each of the three financial years ending 31st March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM. Further details of these agreements are contained in the Circular.

The aggregate amount of rental payments and other charges paid to Yoshimoto under these agreements for the year ended 31st March 2004 was approximately HK\$1,249,000 (2003: HK\$587,000).

### **(d) Master video production agreements**

Pursuant to a master video production agreement dated 10th October 2002 and entered into between R&C Japan and Yes Visions Co., Ltd. ("Yes Visions"), and a master video production agreement dated 10th October 2002 and entered into between R&C Japan and Y's Vision Co., Ltd. ("Y's Vision"), R&C Japan will engage Yes Visions and Y's Vision respectively to produce videos, containing visual or audio-visual recordings, to complement R&C Japan's promotional activities in conjunction with its release of artists' music records and other products. The term of each of these agreements is from 10th October 2002 to 31st March 2005. Under these agreements, R&C Japan is liable to pay Yes Visions and Y's Vision production costs of the videos, containing visual or audio-visual recordings, being Yes Visions' and Y's Vision's out-of-pocket expenses relating to the production plus administration costs which is fixed as 10% of such out-of-pocket expenses.



## **DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS** *(Continued)*

### **(d) Master video production agreements** *(Continued)*

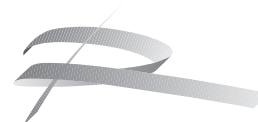
These agreements and the cap of HK\$2,000,000 for each of the three financial years ending 31st March 2005, have been approved by the independent shareholders of the Company by way of poll at the EGM. Further details of these agreements are contained in the Circular.

The aggregate amount of production costs paid to Yes Visions and Y's Vision under these agreements for the year ended 31st March 2004 was approximately HK\$383,000 (2003: Nil).

The independent non-executive Directors have reviewed the above connected transactions from notes (a) to (d) and confirmed that the connected transactions:

- (i) have been entered into in the ordinary and usual course of the business of the Group;
- (ii) have been entered into either on normal commercial terms; or
- (iii) have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) have not exceeded their respective caps.

Save as aforesaid and disclosed in the section headed "Directors' service contracts" in this report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or the controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



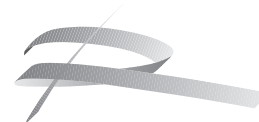
## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

At 31st March 2004, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange were as follows:

### **(a) Ordinary shares of HK\$0.10 each in the Company**

| <b>Name of Director</b>   | <b>Capacity in which the shares are held</b>  | <b>Personal interests</b> | <b>Family interests</b> | <b>Total interests</b> | <b>Approximate shareholding in the Company</b> |
|---------------------------|---|---------------------------|-------------------------|------------------------|--|
| Mr. Takeyasu Hashizume    | Beneficial owner                              | 1,730,000                 | –                       | 1,730,000              | 0.11%  |
| Mr. Arihito Yamada        | Beneficial owner                              | 8,913,600                 | –                       | 8,913,600              | 0.57%  |
| Mr. Yukitsugu Shimizu     | Beneficial owner                              | 430,000                   | –                       | 430,000                | 0.03%  |
| Mr. Hiroshi Osaki         | Beneficial owner                              | 1,300,000                 | –                       | 1,300,000              | 0.08%  |
| Mr. Tetsuya Komuro (Note) | Beneficial owner and interests by attribution | 422,676,667               | 2,200,000               | 424,876,667            | 27.33%   |

*Note:* At 31st March 2004, Mr. Tetsuya Komuro and Ms. Keiko Komuro, the spouse of Mr. Tetsuya Komuro, were beneficial owners of 422,676,667 and 2,200,000 shares in the Company respectively. Mr. Tetsuya Komuro was accordingly interested in a total of 424,876,667 shares in the Company. Mr. Tetsuya Komuro resigned as Director of the Company with effect from 21st May 2004. At 24th May 2004, Mr. Tetsuya Komuro and Ms. Keiko Komuro had disposed of all their shares in the Company.



## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

### (b) Share options of the Company

| Name of Director                | Date of grant  | Exercise price<br>(HK\$) | Granted    | Number of share options          |                                   |
|---------------------------------|----------------|--------------------------|------------|----------------------------------|-----------------------------------|
|                                 |                |                          |            | Outstanding as at 1st April 2003 | Outstanding as at 31st March 2004 |
| <b>Pre-IPO Grant of Options</b> |                |                          |            |                                  |                                   |
| Mr. Tetsuya Komuro              | 21st May 2001  | 0.10                     | 41,387,376 | 41,387,376                       | 41,387,376                        |
| <b>Share Option Scheme</b>      |                |                          |            |                                  |                                   |
| Mr. Arihito Yamada              | 12th July 2001 | 0.47                     | 8,800,000  | 8,800,000                        | 8,800,000                         |

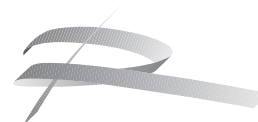
The share options granted to Mr. Tetsuya Komuro, the exercise period for which expires 10 years from 31st May 2001, are vested as follows:

|                  |            |
|------------------|------------|
| On 31st May 2002 | Up to 30%  |
| On 31st May 2003 | Up to 60%  |
| On 31st May 2004 | Up to 100% |

The share options granted to Mr. Arihito Yamada, the exercise period for which expires 10 years from 12th July 2001, are fully vested as at 31st March 2004.

Save as disclosed above, as at 31st March 2004, none of the Directors, chief executives or their respective associates (as defined in the GEM Listing Rules) was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or which, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the year ended 31st March 2004 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.



## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY**

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st March 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital:

| <b>Name of shareholder</b>                      | <b>Interests in the ordinary shares of HK\$0.10 each in the Company</b> | <b>Approximate shareholding in the Company</b> |
|---|---|--|
| Yoshimoto America, Inc. <i>(Note 1)</i>         | 450,000,000   | 28.94%   |
| Yoshimoto Kogyo Co., Ltd. <i>(Note 1)</i>       | 450,000,000   | 28.94%   |
| Softbank Entertainment Limited <i>(Note 2)</i>  | 91,750,000  | 5.90%  |
| Softbank Investment Corporation <i>(Note 2)</i> | 91,750,000  | 5.90%  |
| Softbank Finance Corporation <i>(Note 2)</i>    | 91,750,000  | 5.90%  |
| Softbank Corp. <i>(Note 2)</i>                  | 91,750,000  | 5.90%  |

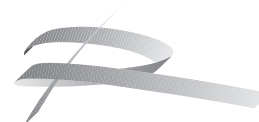
### *Notes:*

1. Yoshimoto America, Inc., a wholly-owned subsidiary of Yoshimoto Kogyo Co., Ltd., was the beneficial owner of 450,000,000 shares in the Company. Accordingly, Yoshimoto Kogyo Co., Ltd. was interested in 450,000,000 shares in the Company by attribution.
2. Softbank Entertainment Limited, controlled as to 100% by Softbank Investment Corporation, was the beneficial owner of 91,750,000 shares in the Company. Softbank Investment Corporation was controlled as to 65.20% by Softbank Finance Corporation, which was in turn controlled as to 100% by Softbank Corp. Accordingly, each of Softbank Investment Corporation, Softbank Finance Corporation and Softbank Corp. was interested in 91,750,000 shares in the Company by attribution.

Save as disclosed above, at 31st March 2004, the Directors or chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company under section 336 of the SFO.

## **MANAGEMENT CONTRACTS**

No contract of significance concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

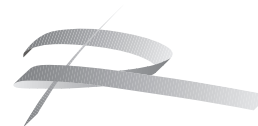


## USE OF PROCEEDS FROM THE PLACING OF SHARES

The net proceeds to the Group from the placing of shares on 31st May 2001 (the "Placing"), after deduction of underwriting fees and expenses payable by the Company in relation to the Placing, were approximately HK\$52.1 million. During the period from 31st May 2001 (date of listing) to 31st March 2004, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus dated 24th May 2001 (the "Prospectus"):

|   | As stated in the Prospectus        |  |                       | Actual<br>HK\$ million |
|---|------------------------------------|--|-----------------------|------------------------|
|   | Use of<br>proceeds<br>HK\$ million | Financed by<br>internal<br>resources<br>HK\$ million | Total<br>HK\$ million |                        |
| - For the acquisition of hardware and software for its Tokyo studio to enhance the production of master tapes so as to enable the Group to capitalise on its strength in music production to expand its customer base and enhance its core business operations; | 10.0                               | 10.0   | 20.0                  | 6.7                    |
| - For the recruitment of producers mainly to strengthen its music production capacity;  | 16.0                               | 9.0  | 25.0                  | 6.4                    |
| - For engaging in sponsorship and artiste promotional activities in different countries in Asia mainly to achieve the Group's geographic expansion plan and increase its brand recognition and publicity;   | 18.0                               | 9.0  | 27.0                  | 10.2                   |
| - For training and development of artistes in different Asian countries to achieve geographic expansion;  | 2.0                                | 1.0  | 3.0                   | 10.3                   |
| - For establishing an online and offline music learning centre mainly to strengthen the Group's music production capacity and to exploit the Internet media for the Group's business; and   | 2.0                                | 1.0  | 3.0                   | -                      |
| - For general working capital purposes.   | 5.0                                | -  | 5.0                   | 5.0                    |
|   | <u>53.0</u>                        | <u>30.0</u>  | <u>83.0</u>           | <u>38.6</u>            |

In view of the uncertain business environment, the Group took a more cautious approach in the application of the net proceeds. As a result, the speed of the application was slower than expected. Since the Group placed more emphasis on the records released under its label, more cash resources were allocated to train and develop artistes. The remaining net proceeds of approximately HK\$13.5 million were placed on short term deposits with licensed banks in Hong Kong for future use as identified by the Group's business plans.



## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

### Purchases

|                                   |     |
|-----------------------------------|-----|
| – the largest supplier            | 34% |
| – five largest suppliers combined | 53% |

### Sales

|                                   |     |
|-----------------------------------|-----|
| – the largest customer            | 86% |
| – five largest customers combined | 90% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

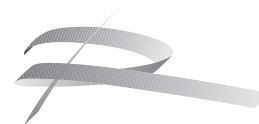
## BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

## AUDIT COMMITTEE

The Company established an audit committee on 21st May 2001 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee has two members comprising the two independent non-executive Directors of the Company, namely Mr. Seiichi Nakaoda and Mr. Yeung Mui Kwan, David.

During the year, the audit committee reviewed and commented on the Group's financial statements, interim reports and quarterly reports and provided advice and comments thereon to the Board. One meeting was held during the year.



## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

At 31st March 2004, Mr. Tetsuya Komuro, an ex-executive Director of the Company who resigned with effect from 21st May 2004, was interested in approximately 24% of M-Tres Ltd. ("M-Tres"), which is the management company of Mr. Takashi Utsunomiya, a producer of the Group. Under the management of M-Tres, Mr. Takashi Utsunomiya (together with M-Tres) and Rojam Entertainment Limited ("REL"), a wholly-owned subsidiary of the Company, have entered into an executive recording artiste agreement in July 2000 whereby REL became the record company for Mr. Takashi Utsunomiya. The principal business of M-Tres is event production and management business. Mr. Tetsuya Komuro has confirmed that he has not taken any management role in M-Tres and he is solely a passive investor. He has also confirmed that he has verbally undertaken to the other shareholders of M-Tres that he will not dispose of his interests in M-Tres and there may be adverse impact on the business of M-Tres if he does so. Given the scope and nature of business of M-Tres and the passive nature of Mr. Tetsuya Komuro's involvement in it and further that event production and management is not the core business of the Group, the Directors consider that Mr. Tetsuya Komuro's retention of his interests in M-Tres will not have any significant adverse impact on the business of the Group.

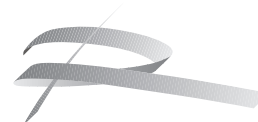
Mr. Tetsuya Komuro has unconditionally and irrevocably undertaken to the Company that (i) he will not, and will procure that none of his associates (as defined in the GEM Listing Rules) will directly or indirectly, carry on or engage or be engaged in any business which shall compete or may compete, with the provision of producer services, music publishing, trademark licensing, artiste and event management, record distribution, and music learning center (the "Restricted Business") whether directly or indirectly with effect from six months after the commencement date of dealings in the shares of the Company on GEM and (iii) he will not, and will procure that none of his associates (as defined in the GEM Listing Rules) will, directly or indirectly, own more than 5% of the equity interest in any company whose business includes the Restricted Business, save for the 24% equity interest in M-Tres as described above. The above undertaking will cease to have effect on the earliest of the date on which (i) Mr. Tetsuya Komuro and/or his associates (as defined in the GEM Listing Rules) cease to be shareholder(s) who is/are together entitled to exercise or control the exercise of 10% or more of the voting power at general meetings of the Company; (ii) the shares of the Company cease to be listed and traded on GEM; or (iii) the principal business of the Group ceases to be the Restricted Business.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) have any interests in a business, which competes or may compete with the business of the Group.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would obligate the Company to offer new shares on a pro-rata basis to existing shareholders.





## SPONSOR'S INTERESTS

As at 31st March 2004, neither Core Pacific – Yamaichi Capital Limited (“CPY Capital”) nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company, including options or rights to subscribe for such shares, pursuant to Rule 6.36 and 18.63 of the GEM Listing Rule.

Pursuant to the sponsor agreement dated 31st May 2001 entered into between CPY Capital and the Company (the “Sponsor Agreement”), CPY Capital received fees for acting as the Company’s retained sponsor for the period from 31st May 2001 to 31st March 2004 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein. The Sponsor Agreement expired on 31st March 2004.

## OUTSTANDING SHARE OPTIONS OF THE COMPANY

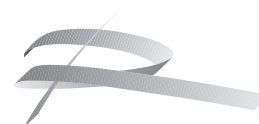
### (a) Pre-IPO Grant of Options

Options to subscribe for up to an aggregate of 51,734,220 shares in the Company were granted on 21st May 2001 (the “Pre-IPO Scheme”) to the following grantees as an inducement to engage them for the provision of producer services to the Group pursuant to the terms of certain producer service agreements. Details of the options are set out as follows:

| Name                  | Date of grant | Exercise price<br>(HK\$) | Number of options |                            |           |        |           | Outstanding<br>as at<br>31st March<br>2004 |
|-----------------------|---------------|--------------------------|-------------------|----------------------------|-----------|--------|-----------|--|
|                       |               |                          | Granted           | Outstanding                | Exercised | Lapsed | Cancelled |  |
|                       |               |                          |                   | as at<br>1st April<br>2003 |           |        |           |  |
| Mr. Tetsuya<br>Komuro | 21st May 2001 | 0.1                      | 41,387,376        | 41,387,376                 | -         | -      | -         | 41,387,376                                 |
| Mr. Naoto Kine        | 21st May 2001 | 0.8                      | 5,173,422         | 5,173,422                  | -         | -      | -         | 5,173,422                                  |
| Mr. Koji Kubo         | 21st May 2001 | 0.8                      | 5,173,422         | 5,173,422                  | -         | -      | -         | 5,173,422                                  |
| Total                 |               |                          | 51,734,220        | 51,734,220                 | -         | -      | -         | 51,734,220                                 |

Option period commences on 31st May 2001 and expires 10 years thereafter. Options granted are vested as follows:

|                  |            |
|------------------|------------|
| On 31st May 2002 | Up to 30%  |
| On 31st May 2003 | Up to 60%  |
| On 31st May 2004 | Up to 100% |



## OUTSTANDING SHARE OPTIONS OF THE COMPANY *(Continued)*

### (b) Share Option Scheme (the "2001 Scheme")

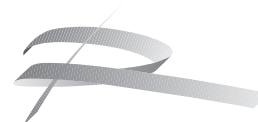
Options to subscribe for up to an aggregate of 52,240,000 shares in the Company were granted on 12th July 2001 to the then executive Directors and full-time employees of the Group pursuant to the 2001 Scheme and the terms and conditions contained in the offer letter dated 12th July 2001 from the Company. Details of the options are set out as follows:

| Name                                 | Date of grant  | Exercise price<br>(HK\$) | Number of options |   |           |                    |           | Outstanding<br>as at<br>31st March<br>2004 |
|--------------------------------------|----------------|--------------------------|-------------------|---|-----------|--------------------|-----------|--|
|                                      |                |                          | Granted           | Outstanding<br>as at<br>1st April<br>2003 | Exercised | Lapsed             | Cancelled |  |
| Mr. Arihito<br>Yamada                | 12th July 2001 | 0.47                     | 8,800,000         | 8,800,000                                 | -         | -                  | -         | 8,800,000                                  |
| Two former<br>executive<br>Directors | 12th July 2001 | 0.47                     | 15,400,000        | -   | -         | -                  | -         | -  |
| 41 employees                         | 12th July 2001 | 0.47                     | 28,040,000        | 12,700,000                                | -         | (1,300,000)        | -         | 11,400,000                                 |
| <b>Total</b>                         |                |                          | <b>52,240,000</b> | <b>21,500,000</b>                         | <b>-</b>  | <b>(1,300,000)</b> | <b>-</b>  | <b>20,200,000</b>                          |

Option period commences on the date of grant and expires 10 years thereafter. Options granted are vested as follows:

|   |            |
|---|------------|
| On first anniversary of the date of commencement of the<br>grantee's employment with the Group  | Up to 50%  |
| On second anniversary of the date of commencement of the<br>grantee's employment with the Group | Up to 100% |

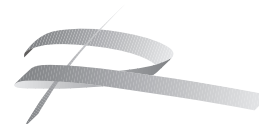
No options were granted during the year and therefore the Directors do not perform the valuation of options granted in prior years. At 31st March 2004, options comprising a total of 32,040,000 underlying shares granted to two former executive Directors and certain former full time employees of the Group had lapsed, but not yet cancelled, following the cessation of their employment.



## OUTSTANDING SHARE OPTIONS OF THE COMPANY *(Continued)*

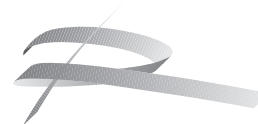
A summary of the principal terms of the Pre-IPO Scheme and the 2001 Scheme (together, the "Schemes") is as follows:

|   | <b>The Pre-IPO Scheme</b>  | <b>The 2001 Scheme</b>  |
|---|--|---|
| 1. Purpose  | As an inducement to engage certain individuals for the provision of producer services  | As an incentive to employees and executive Directors  |
| 2. Participants   | The names of the participants are set out in (a) above   | Eligible full-time employees including executive Directors of any company in the Group                    |
| 3. Total number of shares available for issue and percentage of issued share capital represented by such number | Options to subscribe for up to an aggregate of 51,734,220 shares were outstanding as at 31st March 2004. No further options shall be granted under the Pre-IPO Scheme.   | See below   |
|   | The maximum number of shares in respect of which options may be granted under the Schemes and any other share option schemes of the Company in issue shall not exceed 30% of the total number of shares in issue from time to time (i.e. 466,405,320 shares for the Schemes as at the date of this report) (excluding (i) any shares issued pursuant to the Schemes and any other share option schemes; and (ii) any pro rata entitlements to further shares issued in respect of those mentioned in (i) above). |   |
| 4. Maximum entitlement of each participant  | The entitlements of each of the participants are set out in (a) above. No further options shall be granted under the Pre-IPO Scheme.   | 25% of the aggregate of all shares subject to the 2001 Scheme   |
| 5. The period within which the shares must be taken up under an option  | 10 years from 31st May 2001  | Not less than 3 years commencing from the date of grant and not more than 10 years from the date of grant |



## OUTSTANDING SHARE OPTIONS OF THE COMPANY *(Continued)*

|  | <b>The Pre-IPO Scheme</b>   | <b>The 2001 Scheme</b>   |
|--|---|--|
| 6. The minimum period for which an option must be held before it can be exercised  | Refer to the vesting mechanism set out in (a) above   | Refer to the vesting mechanism set out in (b) above  |
| 7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid | Not applicable  | HK\$1.00 on acceptance of the offer of an option   |
| 8. The basis of determining the exercise price   | The exercise prices are set out in (a) above. No further options shall be granted under the Pre-IPO Scheme. | <p>The exercise price is determined by the Directors and being not less than the higher of:</p> <p>(a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day;</p> <p>(b) an amount equals to the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and</p> <p>(c) the nominal value thereof</p> |
| 9. The remaining life of the Schemes   | No further options shall be granted under the Pre-IPO Scheme.   | The 2001 Scheme period will end on 20th May 2011   |



## **PENSION SCHEME ARRANGEMENTS**

The subsidiaries operating in Hong Kong are required to participate in a defined contribution retirement scheme of the Group or Company set up in accordance with the Hong Kong Mandatory Provident Fund Ordinance. Under the scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

The subsidiaries operating in Japan are required to participate in defined contribution retirement schemes organised by the relevant local government authorities since incorporation. They are required to make contributions to the retirement schemes at a rate of 6.79% of the basic salary of their employees up to a yearly maximum of Japanese Yen ("JPY") 635,000 (approximately HK\$44,500) per employee.

The subsidiary in the PRC is required to participate in defined contribution retirement scheme organised by the relevant local government authorities since incorporation. It is required to make contributions to the retirement scheme at a rate of around 7% of the basic salary of their employees.

## **AUDITORS**

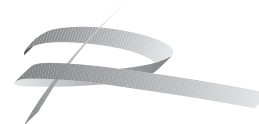
The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Takeyasu Hashizume**

President

Hong Kong, 28th June 2004



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor Prince's Building  
Central Hong Kong

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF ROJAM ENTERTAINMENT HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

We have audited the accounts on pages 45 to 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of Directors and auditors**

The Directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

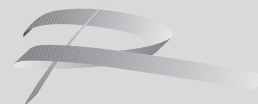
### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 28th June 2004

# Consolidated Profit and Loss Account



For the year ended 31st March 2004

|                                     | Note | 2004<br>HK\$'000 | Restated<br>2003<br>HK\$'000 |
|-------------------------------------|------|------------------|------------------------------|
| Turnover                            | 2    | <b>249,349</b>   | 129,491                      |
| Other revenues                      | 2    | <b>297</b>       | 864                          |
| Total revenues                      |      | <b>249,646</b>   | 130,355                      |
| Less: overseas withholding taxation | 4    | <b>–</b>         | (982)                        |
|                                     |      | <b>249,646</b>   | 129,373                      |
| Cost of sales                       |      | <b>(137,472)</b> | (45,503)                     |
| Selling and distribution expenses   |      | <b>(70,527)</b>  | (37,730)                     |
| Other operating expenses            |      | <b>(25,021)</b>  | (32,942)                     |
| Amortisation of goodwill            |      | <b>(5,480)</b>   | (2,627)                      |
| Profit before taxation              | 3    | <b>11,146</b>    | 10,571                       |
| Taxation                            | 4    | <b>(1,162)</b>   | (382)                        |
| Profit after taxation               |      | <b>9,984</b>     | 10,189                       |
| Minority interests                  |      | <b>(2,692)</b>   | (6,869)                      |
| Profit attributable to shareholders | 5    | <b>7,292</b>     | 3,320                        |
| Basic earnings per share            | 6    | <b>0.5 cent</b>  | 0.3 cent                     |

# Consolidated Balance Sheet



As at 31st March 2004

|                                       | Note  | 2004<br>HK\$'000 | Restated<br>2003<br>HK\$'000 |
|---------------------------------------|-------|------------------|------------------------------|
| Non-current assets                    |       |                  |                              |
| Intangible assets                     | 10    | 107,943          | 109,304                      |
| Fixed assets                          | 11    | 29,332           | 34,409                       |
| Current assets                        |       |                  |                              |
| Record masters                        | 10    | 14,785           | 3,264                        |
| Inventories                           | 13    | 12,925           | 6,766                        |
| Trade receivables                     | 15    | 13,100           | 17,827                       |
| Other receivables and prepayments     |       | 29,870           | 7,526                        |
| Cash and bank balances                | 16    | 90,428           | 80,042                       |
|                                       |       | <b>161,108</b>   | 115,425                      |
| Current liabilities                   |       |                  |                              |
| Trade payables                        | 17    | 35,717           | 18,023                       |
| Accruals and other payables           |       | 28,383           | 14,798                       |
| Taxation payable                      |       | 147              | 1,767                        |
|                                       |       | <b>64,247</b>    | 34,588                       |
| Net current assets                    |       | <b>96,861</b>    | 80,837                       |
| Total assets less current liabilities |       | <b>234,136</b>   | 224,550                      |
| Financed by:                          |       |                  |                              |
| Share capital                         | 18    | 155,468          | 155,468                      |
| Reserves                              | 19(a) | 75,853           | 69,566                       |
| Shareholders' funds                   |       | 231,321          | 225,034                      |
| Minority interests                    |       | 1,884            | (484)                        |
| Non-current liabilities               |       |                  |                              |
| Deferred tax liabilities              | 20    | 931              | –                            |
|                                       |       | <b>234,136</b>   | 224,550                      |

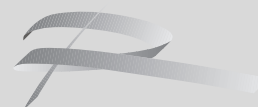
On behalf of the Board

**Takeyasu Hashizume**  
Director

**Arihito Yamada**  
Director



# Balance Sheet



As at 31st March 2004

|                                       | Note  | 2004<br>HK\$'000 | Restated<br>2003<br>HK\$'000 |
|---------------------------------------|-------|------------------|------------------------------|
| Investments in subsidiaries           | 12    | 50,132           | 50,177                       |
| Current assets                        |       |                  |                              |
| Amounts due from subsidiaries         | 14    | 167,269          | 143,500                      |
| Other receivables and prepayments     |       | 182              | 829                          |
| Cash and bank balances                |       | 25,015           | 51,547                       |
|                                       |       | <u>192,466</u>   | <u>195,876</u>               |
| Current liabilities                   |       |                  |                              |
| Amounts due to subsidiaries           | 14    | 66,825           | 59,611                       |
| Accruals and other payables           |       | 680              | 715                          |
|                                       |       | <u>67,505</u>    | <u>60,326</u>                |
| Net current assets                    |       | <u>124,961</u>   | <u>135,550</u>               |
| Total assets less current liabilities |       | <u>175,093</u>   | <u>185,727</u>               |
| Financed by:                          |       |                  |                              |
| Share capital                         | 18    | 155,468          | 155,468                      |
| Reserves                              | 19(b) | 19,625           | 30,259                       |
| Shareholders' funds                   |       | <u>175,093</u>   | <u>185,727</u>               |

On behalf of the Board

**Takeyasu Hashizume**  
Director

**Arihito Yamada**  
Director

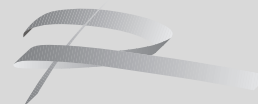
# Consolidated Statement of Changes in Equity



For the year ended 31st March 2004

|  |             | <b>2004</b>           | Restated              |
|--|-------------|-----------------------|-----------------------|
|  | <i>Note</i> | <b>HK\$'000</b>       | 2003                  |
|  |             |                       | <i>HK\$'000</i>       |
| Total equity as at the beginning of the year   |             | <b>225,034</b>        | 178,102               |
| Profit attributable to shareholders  |             | <b>7,292</b>          | 3,320                 |
| Exchange adjustment arising on translation of the<br>accounts of overseas subsidiaries | 19(a)       | <b>(1,005)</b>        | (1,388)               |
| Issue of shares  | 18(d)       | <u>—</u>              | <u>45,000</u>         |
| Total equity as at the end of the year   |             | <b><u>231,321</u></b> | <b><u>225,034</u></b> |

# Consolidated Cash Flow Statement



For the year ended 31st March 2004

|  | Note | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|--|------|------------------|------------------|
| Net cash inflow/(outflow) from operations              | 21   | <b>45,420</b>    | (16,130)         |
| Overseas taxation paid                                 |      | <b>(1,914)</b>   | –                |
| Net cash inflow/(outflow) from operating activities    |      | <b>43,506</b>    | (16,130)         |
| Investing activities                                   |      |                  |                  |
| Purchase of fixed assets                               |      | <b>(785)</b>     | (1,319)          |
| Addition of record masters                             |      | <b>(27,727)</b>  | (8,439)          |
| Sale of fixed assets                                   |      | <b>98</b>        | 101              |
| Purchase of subsidiaries, net of cash acquired         |      | –                | 39,175           |
| Interest received                                      |      | <b>297</b>       | 1,109            |
| Net cash (outflow)/inflow from investing activities    |      | <b>(28,117)</b>  | 30,627           |
| Increase in cash and cash equivalents                  |      | <b>15,389</b>    | 14,497           |
| Exchange difference                                    |      | <b>(5,003)</b>   | (4,798)          |
| Cash and cash equivalents at the beginning of the year |      | <b>80,042</b>    | 70,343           |
| Cash and cash equivalents at the end of the year       |      | <b>90,428</b>    | 80,042           |
| Analysis of balances of cash and cash equivalents      |      |                  |                  |
| Cash and bank balances                                 |      | <b>90,428</b>    | 80,042           |



## 1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the Statement of Standard Accounting Practice ("SSAP") No. 12 "Income Taxes" (revised) issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting this revised policy is set out in note (j) below.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

Subsidiaries are those entities in which the company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of Directors; or to cast majority of votes at the meetings of the board of Directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

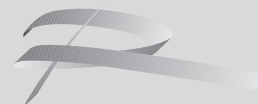
The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries that include loan capital are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (c) Revenue recognition

(i) Revenue from record distribution and merchandise sales is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has been passed.



## 1. Principal accounting policies *(Continued)*

### (c) Revenue recognition *(Continued)*

- (ii) Revenue from production services is recognised when the production is completed.
- (iii) Royalty income and trademark licensing income is recognised on an accrual basis.
- (iv) Revenue from operation of discotheque, including sales of food and beverages, is recognised when the service is rendered.
- (v) Revenue from artiste management is recognised when the service is rendered.
- (vi) Revenue from event management is recognised when the event is completed.
- (vii) Advertising revenues from banner advertisements is recognised over the period in which the advertisement is displayed, provided that no significant obligation remains and collection of the receivable is reasonably assured.
- (viii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (d) Intangibles

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets or liabilities of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over a maximum of 20 years.

#### (ii) Record masters

Record masters represent accumulated costs incurred in the production, less any expected losses, of master tapes from which the relevant audio-visual products are released at the balance sheet date. The amount recognised as an asset is amortised using the straight-line method over the estimated life of the record performance, with a maximum of 24 months.

#### (iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

### (e) Fixed assets

Fixed assets, comprising computer equipment, studio equipment, leasehold improvements, office equipment, furniture and fixtures, discotheque equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.



## 1. Principal accounting policies *(Continued)*

### (e) Fixed assets *(Continued)*

Fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

|  |           |
|--|-----------|
| Leasehold improvements                   | 20% – 50% |
| Studio equipment                         | 10% – 20% |
| Office equipment, furniture and fixtures | 20% – 25% |
| Computer equipment                       | 30%       |
| Discotheque equipment                    | 20%       |
| Motor vehicles                           | 20% – 30% |

### Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (f) Inventories

Inventories comprise finished goods of audio-visual products, merchandise and production-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis comprises purchase cost, direct production costs and a portion of the overhead. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (g) Trade receivables

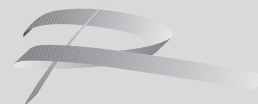
Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

### (h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and cash investments with a maturity of three months or less from date of investment.

### (i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.



## 1. Principal accounting policies *(Continued)*

### (i) **Contingent liabilities and contingent assets** *(Continued)*

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (j) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 20 to the accounts, there is no impact on accumulated losses of the Group as at 1st April 2002 and 1st April 2003. After offsetting the deferred tax liabilities and the deferred tax assets, the net balance of the deferred tax account of the Group is nil as at 31st March 2003.

### (k) **Translation of foreign currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.



## 1. Principal accounting policies *(Continued)*

### (k) Translation of foreign currencies *(Continued)*

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (l) Related companies

Related companies are those companies in which the Company's Directors or shareholders have significant direct or indirect interests.

### (m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (n) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

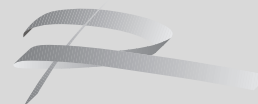
#### (ii) *Pensions obligations*

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and there are no provisions under these schemes whereby forfeited contributions may be used to reduce future contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

#### (iii) *Equity compensation benefits*

Pursuant to a written resolution of the shareholders of the Company dated 21st May 2001, two share option schemes, namely Pre-IPO grant of options and share option scheme, were adopted by the Company. No charge is recognised in the profit and loss account in respect of the value of options granted during the year. The share options granted will be recognised in the balance sheet at the time when the share options are exercised. Share capital will be credited at par for each share issued upon the exercise of share options, with share premium credited at the excess of net proceeds received over total share capital credited.





## 1. Principal accounting policies *(Continued)*

### (o) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated income/(costs) represent corporate income/(expenses). Segment assets consist primarily of intangible assets, fixed assets, inventories and receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

## 2. Turnover, revenue and segment information

The Group is principally engaged in record distribution, music production, music publishing, discotheque operation, artiste management, event management, trademark licensing, merchandise sales and banner advertising. Revenues recognised during the year are as follows:

|  | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|--|--------------------------------|------------------|
| Turnover   |                                |                  |
| Record distribution income                         | <b>224,505</b>                 | 85,082           |
| Music production income                            |                                |                  |
| – Production service fees                          | <b>4,518</b>                   | 14,195           |
| – Royalty income                                   | <b>4,473</b>                   | 19,366           |
| Music publishing fee                               |                                |                  |
| – Royalty income                                   | <b>49</b>                      | 135              |
| Discotheque income                                 | <b>14,786</b>                  | 8,767            |
| Artiste management fees                            | –                              | 33               |
| Event management income                            | <b>21</b>                      | 32               |
| Trademark licensing income                         | –                              | 845              |
| Merchandise sales                                  | <b>12</b>                      | 117              |
| Banner advertising income                          | <b>985</b>                     | 919              |
|  | <b>249,349</b>                 | 129,491          |
| Other revenues                                     |                                |                  |
| Bank interest income                               | <b>297</b>                     | 804              |
| Interest income from amount due from a shareholder | –                              | 60               |
|  | <b>297</b>                     | 864              |
| Total revenues                                     | <b>249,646</b>                 | 130,355          |



## 2. Turnover, revenue and segment information *(Continued)*

### Primary reporting format – business segments

The Group is organised on a worldwide basis into six main business segments:

- |                     |   |  |
|---------------------|---|--|
| Record distribution | – | distributing records under its own labels and records containing master sound recordings which have been licensed from third parties in Hong Kong and Japan  |
| Music production    | – | provision of encompassing producer services, master tape recordings, mixing services, re-mixing services, arranging services and advisory services in respect of selection of songs for records production |
| Music publishing    | – | granting of licences for use of the musical works owned by or licensed to the Group  |
| Discotheque         | – | operations of discotheque  |
| Event management    | – | organising concerts and other similar events for promotion of the music production team's music works  |
| Merchandise sales   | – | selling featured products of the Group's artistes  |

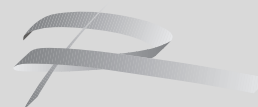
The Group's inter-segment transactions mainly consist of record distribution and music production between subsidiaries. The transactions were entered into on terms similar to those with independent third parties and were eliminated on consolidation.

### Secondary reporting format – geographical segments

Although the Group's six business segments are managed on a worldwide basis, they operate in three main geographical areas:

- |                |   |   |
|----------------|---|---|
| Hong Kong      | – | music publishing and record distribution  |
| Japan          | – | record distribution, music production, music publishing, event management and merchandise sales |
| Mainland China | – | operations of discotheque   |

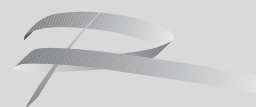
There are no sales between the geographical segments.



## 2. Turnover, revenue and segment information *(Continued)*

### Primary reporting format – business segments

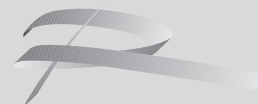
|  | 2004                               |                                 |                                 |                         |                                 |                                  |                    |                         | Total<br>HK\$'000 |
|--|------------------------------------|---------------------------------|---------------------------------|-------------------------|---------------------------------|----------------------------------|--------------------|-------------------------|-------------------|
|  | Record<br>distribution<br>HK\$'000 | Music<br>production<br>HK\$'000 | Music<br>publishing<br>HK\$'000 | Discotheque<br>HK\$'000 | Event<br>management<br>HK\$'000 | Merchandise<br>sales<br>HK\$'000 | Others<br>HK\$'000 | Elimination<br>HK\$'000 |                   |
| Turnover                               |                                    |                                 |                                 |                         |                                 |                                  |                    |                         |                   |
| External sales                         | 224,505                            | 8,991                           | 49                              | 14,786                  | 21                              | 12                               | 985                | -                       | 249,349           |
| Inter-segment sales                    | 52                                 | 13,201                          | -                               | -                       | -                               | -                                | -                  | (13,253)                | -                 |
| <b>Total</b>                           | <b>224,557</b>                     | <b>22,192</b>                   | <b>49</b>                       | <b>14,786</b>           | <b>21</b>                       | <b>12</b>                        | <b>985</b>         | <b>(13,253)</b>         | <b>249,349</b>    |
| Segment results                        | 26,243                             | (4,928)                         | 49                              | 825                     | 21                              | 9                                | 1,023              | (13,253)                | 9,989             |
| Unallocated income                     |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 1,157             |
| Profit before taxation                 |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 11,146            |
| Taxation                               |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | (1,162)           |
| Profit after taxation                  |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 9,984             |
| Minority interests                     |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | (2,692)           |
| Profit attributable to shareholders    |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>7,292</b>      |
| Segment assets                         | 167,054                            | 13,839                          | 6                               | 26,351                  | -                               | -                                | 86                 | -                       | 207,336           |
| Unallocated assets                     |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 91,047            |
| <b>Total assets</b>                    |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>298,383</b>    |
| Segment liabilities                    | (57,897)                           | (2,568)                         | -                               | (1,431)                 | -                               | -                                | -                  | -                       | (61,896)          |
| Unallocated liabilities                |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | (3,282)           |
| <b>Total liabilities</b>               |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>(65,178)</b>   |
| Minority interests                     |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | (1,884)           |
| <b>Net assets</b>                      |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>231,321</b>    |
| Capital expenditure                    | 27,767                             | 2                               | -                               | 429                     | -                               | -                                | -                  | -                       | 28,198            |
| Unallocated capital expenditure        |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 314               |
|  |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>28,512</b>     |
| Amortisation of intangible assets      | 12,480                             | -                               | -                               | 1,271                   | -                               | -                                | -                  | -                       | 13,751            |
| Impairment charge on intangible assets | 3,816                              | -                               | -                               | -                       | -                               | -                                | -                  | -                       | 3,816             |
| Depreciation                           | 7,057                              | 282                             | 2                               | 1,508                   | -                               | -                                | -                  | -                       | 8,849             |
| Unallocated depreciation               |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 695               |
|  |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>9,544</b>      |



## 2. Turnover, revenue and segment information *(Continued)*

### Primary reporting format – business segments *(Continued)*

|  | 2003 (Restated)                    |                                 |                                 |                         |                                 |                                  |                    |                         | Total<br>HK\$'000 |
|--|------------------------------------|---------------------------------|---------------------------------|-------------------------|---------------------------------|----------------------------------|--------------------|-------------------------|-------------------|
|  | Record<br>distribution<br>HK\$'000 | Music<br>production<br>HK\$'000 | Music<br>publishing<br>HK\$'000 | Discotheque<br>HK\$'000 | Event<br>management<br>HK\$'000 | Merchandise<br>sales<br>HK\$'000 | Others<br>HK\$'000 | Elimination<br>HK\$'000 |                   |
| Turnover                               |                                    |                                 |                                 |                         |                                 |                                  |                    |                         |                   |
| External sales                         | 85,082                             | 33,561                          | 135                             | 8,767                   | 32                              | 117                              | 1,797              | -                       | 129,491           |
| Inter-segment sales                    | -                                  | 5,117                           | -                               | -                       | -                               | -                                | -                  | (5,117)                 | -                 |
| <b>Total</b>                           | <b>85,082</b>                      | <b>38,678</b>                   | <b>135</b>                      | <b>8,767</b>            | <b>32</b>                       | <b>117</b>                       | <b>1,797</b>       | <b>(5,117)</b>          | <b>129,491</b>    |
| Segment results                        | 32,356                             | 1,217                           | 135                             | (887)                   | 32                              | 24                               | 1,829              | (5,117)                 | 29,589            |
| Unallocated costs                      |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | (19,018)          |
| Profit before taxation                 |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 10,571            |
| Taxation                               |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | (382)             |
| Profit after taxation                  |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 10,189            |
| Minority interests                     |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | (6,869)           |
| Profit attributable to shareholders    |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>3,320</b>      |
| Segment assets                         | 116,743                            | 30,982                          | 34                              | 28,762                  | -                               | -                                | 94                 | -                       | 176,615           |
| Unallocated assets                     |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 82,523            |
| <b>Total assets</b>                    |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>259,138</b>    |
| Segment liabilities                    | (27,693)                           | (2,809)                         | -                               | (2,845)                 | -                               | -                                | -                  | -                       | (33,347)          |
| Unallocated liabilities                |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | (1,241)           |
| <b>Total liabilities</b>               |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>(34,588)</b>   |
| Minority interests                     |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 484               |
| <b>Net assets</b>                      |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>225,034</b>    |
| Capital expenditure                    | 92,949                             | 121                             | -                               | 29,401                  | -                               | -                                | -                  | -                       | 122,471           |
| Unallocated capital expenditure        |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 171               |
|  |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>122,642</b>    |
| Amortisation of intangible assets      | 3,008                              | -                               | -                               | 636                     | -                               | -                                | -                  | -                       | 3,644             |
| Impairment charge on intangible assets | 1,832                              | -                               | -                               | -                       | -                               | -                                | -                  | -                       | 1,832             |
| Depreciation                           | 4,858                              | 1,914                           | 8                               | 843                     | -                               | -                                | -                  | -                       | 7,623             |
| Unallocated depreciation               |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | 7,387             |
|  |                                    |                                 |                                 |                         |                                 |                                  |                    |                         | <b>15,010</b>     |

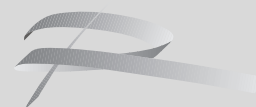


## 2. Turnover, revenue and segment information *(Continued)*

### Secondary reporting format – geographical segments

|                        | Turnover<br>2004<br>HK\$'000 | Segment<br>results<br>2004<br>HK\$'000 | Total assets<br>2004<br>HK\$'000 | Capital<br>expenditure<br>2004<br>HK\$'000 |
|------------------------|------------------------------|--|----------------------------------|--|
| Hong Kong              | 1,034                        | 1,216                                  | 21,595                           | 145  |
| Japan                  | 233,529                      | 7,833                                  | 236,931                          | 27,938                                     |
| Mainland China         | 14,786                       | 878                                    | 34,470                           | 429  |
| Other countries        | –                            | 62                                     | 5,387                            | –  |
|                        | <u>249,349</u>               | <u>9,989</u>                           | <u>298,383</u>                   | <u>28,512</u>                              |
| Unallocated income     |                              | <u>1,157</u>                           |                                  |  |
| Profit before taxation |                              | <u>11,146</u>                          |                                  |  |

|                        | Turnover<br>2003<br>HK\$'000 | Segment<br>results<br>2003<br>HK\$'000 | Total assets<br>2003<br>HK\$'000 | Capital<br>expenditure<br>2003<br>HK\$'000 |
|------------------------|------------------------------|--|----------------------------------|--|
| Hong Kong              | 1,088                        | 1,030                                  | 40,701                           | 126  |
| Japan                  | 118,792                      | 28,584                                 | 162,029                          | 93,115                                     |
| Mainland China         | 9,611                        | (25)                                   | 34,653                           | 29,401                                     |
| Other countries        | –                            | –                                      | 21,755                           | –  |
|                        | <u>129,491</u>               | <u>29,589</u>                          | <u>259,138</u>                   | <u>122,642</u>                             |
| Unallocated costs      |                              | <u>(19,018)</u>                        |                                  |  |
| Profit before taxation |                              | <u>10,571</u>                          |                                  |  |



### 3. Profit before taxation

Profit before taxation is stated after crediting and charging the following:

|   | <b>2004</b>           | 2003           |
|---|-----------------------|----------------|
|   | <b>HK\$'000</b>       | HK\$'000       |
| <b>Crediting</b>  |                       |                |
| Gain on disposal of fixed assets                          | <b>43</b>             | 94             |
| Exchange gains  | <b>10,366</b>         | 9,315          |
| Recovery of bad debts previously written off              | <b>11</b>             | –              |
|   | <u><b>10,420</b></u>  | <u>9,409</u>   |
| <b>Charging</b>   |                       |                |
| Auditors' remuneration                                    | <b>1,051</b>          | 1,176          |
| Cost of inventories sold                                  | <b>127,561</b>        | 40,205         |
| Depreciation of fixed assets                              | <b>9,544</b>          | 15,010         |
| Management fee paid to the minority shareholder (note 12) | <b>470</b>            | 705            |
| Operating leases on land and buildings                    | <b>4,696</b>          | 6,545          |
| Settlement sum for early termination of a lease agreement | –                     | 5,900          |
| Record masters (note 10)                                  |                       |                |
| – Amortisation  | <b>8,271</b>          | 1,017          |
| – Impairment charges                                      | <b>3,816</b>          | 1,832          |
| Amortisation of goodwill (note 10)                        | <b>5,480</b>          | 2,627          |
| Provision for inventories                                 | <b>5,156</b>          | 829            |
| Provision for bad and doubtful debts                      | –                     | 294            |
| Staff costs (excluding Directors' emoluments) (note 8)    | <b>17,260</b>         | 11,074         |
|   | <u><b>172,624</b></u> | <u>110,744</u> |

### 4. Taxation and overseas withholding taxation

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries in Hong Kong have no assessable profits for the current and prior year.

No provision for United States ("US") income tax has been made as the subsidiaries in US have no assessable profits for the current and prior year.

No provision for Japanese corporate income tax has been made for the current and prior year as there is allowable tax loss brought forward from prior years.

The People's Republic of China (the "PRC") taxation has been provided on the profit of the Group's subsidiary in the PRC and calculated at the applicable rates.

Overseas withholding taxation represents Japan and the PRC withholding taxes on the income subject to withholding taxes and calculated at the rates applicable thereto.



#### 4. Taxation and overseas withholding taxation *(Continued)*

The amount of taxation charged to the consolidated profit and loss account represents:

|                                      | <b>2004</b>     | Restated   |
|--------------------------------------|-----------------|------------|
|                                      | <b>HK\$'000</b> | 2003       |
|                                      |                 | HK\$'000   |
| Current taxation:                    |                 |            |
| – PRC taxation                       | <b>294</b>      | 382        |
| Deferred taxation ( <i>note 20</i> ) | <b>868</b>      | –          |
|                                      | <u>1,162</u>    | <u>382</u> |
| Taxation charge                      | <b>1,162</b>    | 382        |

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

|   | <b>2004</b>     | Restated   |
|---|-----------------|------------|
|   | <b>HK\$'000</b> | 2003       |
|   |                 | HK\$'000   |
| Profit before taxation                                | <b>11,146</b>   | 10,571     |
| Calculated at a taxation rate of 17.5% (2003: 16%)    | <b>1,951</b>    | 1,691      |
| Effect of different taxation rates in other countries | <b>3,882</b>    | 9,891      |
| Income not subject to taxation                        | <b>(3,150)</b>  | (2,669)    |
| Expenses not deductible for taxation purposes         | <b>969</b>      | 67         |
| Utilisation of previously unrecognised tax losses     | –               | (13,789)   |
| Recognition of temporary differences not recognised   | <b>(5,197)</b>  | –          |
| Tax losses unrecognised                               | <b>2,707</b>    | 5,191      |
|   | <u>1,162</u>    | <u>382</u> |
| Taxation charge                                       | <b>1,162</b>    | 382        |

#### 5. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$10,634,000 (2003: loss of HK\$26,484,000).



## 6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$7,292,000 (2003: HK\$3,320,000) and the weighted average number of ordinary shares for the year of 1,554,684,403 (2003: 1,317,972,074) shares.

Diluted earnings per share has not been presented for the year ended 31st March 2004 as the conversion of potential ordinary shares would have anti-dilutive effect to the basic earnings per share. Diluted earnings per share has not been presented for the year ended 31st March 2003 as there was no material dilution effect arising from the share options granted by the Company.

## 7. Dividends

No dividend had been paid or declared by the Company during the year (2003: Nil).

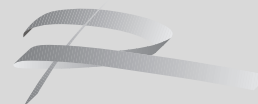
## 8. Staff costs (excluding Directors' emoluments)

|  | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|--|--------------------------------|------------------|
| Wages and salaries   | <b>16,523</b>                  | 10,198           |
| Unutilised annual leave  | <b>24</b>                      | 164              |
| Pension costs-defined contribution plans ( <i>Note below</i> ) | <b>713</b>                     | 712              |
|  | <b><u>17,260</u></b>           | <u>11,074</u>    |

Note:

|  | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|--|--------------------------------|------------------|
| Contributions paid and payable to defined contribution retirement schemes in respect of: |                                |                  |
| Hong Kong  | <b>86</b>                      | 101              |
| Japan  | <b>603</b>                     | 581              |
| PRC  | <b>24</b>                      | 30               |
|  | <b><u>713</u></b>              | <u>712</u>       |





## 9. Directors' and senior management's emoluments

- (a) The aggregate amounts of emoluments paid and payable to the Directors of the Company for the year ended 31st March 2004 are as follows:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000    |
|---|--------------------------------|---------------------|
| Fees  | <b>480</b>                     | 480                 |
| Basic salaries, allowances and benefits in kind | <b>7,997</b>                   | 4,214               |
| Pension contribution                            | <b>294</b>                     | 38                  |
|   | <b><u>8,771</u></b>            | <b><u>4,732</u></b> |

Directors' fees disclosed above include HK\$480,000 (2003: HK\$480,000) paid to the independent non-executive Directors.

The executive Directors of the Company received individual emoluments of approximately HK\$2,464,000 (2003: HK\$2,428,000), HK\$2,402,000 (2003: HK\$121,000), HK\$1,213,000 (2003: HK\$1,605,000), HK\$1,177,000 (2003: HK\$98,000), HK\$621,000 (2003: Nil) and HK\$414,000 (2003: Nil) for the year ended 31st March 2004 respectively. No emoluments were paid to the remaining executive Director during the year.

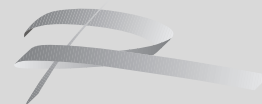
- (b) The five individuals whose emoluments were the highest in the Group for the year include four (2003: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: two) highest paid employee for the year ended 31st March 2004 are as follows:

|                               | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000    |
|-------------------------------|--------------------------------|---------------------|
| Basic salaries and allowances | <b>976</b>                     | 1,800               |
| Pension contribution          | <b>72</b>                      | 25                  |
|                               | <b><u>1,048</u></b>            | <b><u>1,825</u></b> |

The number of employees whose emoluments fell within the following bands is as follows:

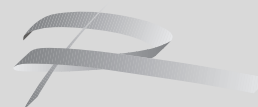
|                               | <b>2004</b>     | 2003 |
|-------------------------------|-----------------|------|
| Nil – HK\$1,000,000           | –               | 2    |
| HK\$1,000,001 – HK\$1,500,000 | <b><u>1</u></b> | –    |

- (c) During the year, no emoluments have been paid by the Group to the Directors of the Company and the highest paid employees mentioned above as bonus, an inducement to join or upon joining the Group or as compensation for loss of office.



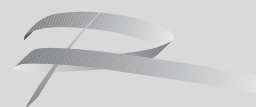
## 10. Intangible assets

|   | <b>Goodwill</b><br><i>HK\$'000</i>          | <b>Record<br/>masters</b><br><i>HK\$'000</i> | <b>Total</b><br><i>HK\$'000</i>             |
|---|---|--|---|
| Cost  |   |  |   |
| At 1st April 2003                                 | 109,605                                     | 8,439  | 118,044                                     |
| Additions   | —   | 27,727                                       | 27,727                                      |
|   | <hr/>                                       | <hr/>  | <hr/>                                       |
| At 31st March 2004                                | 109,605                                     | 36,166                                       | 145,771                                     |
|   | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/>  | <hr style="border-top: 1px dashed black;"/> |
| Accumulated amortisation and<br>impairment losses |   |  |   |
| At 1st April 2003                                 | 2,627                                       | 2,849  | 5,476                                       |
| Amortisation charge                               | 5,480                                       | 8,271  | 13,751                                      |
| Impairment charge                                 | —   | 3,816  | 3,816                                       |
|   | <hr/>                                       | <hr/>  | <hr/>                                       |
| At 31st March 2004                                | 8,107                                       | 14,936                                       | 23,043                                      |
|   | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/>  | <hr style="border-top: 1px dashed black;"/> |
| Net book value                                    |   |  |   |
| At 31st March 2004                                | 101,498                                     | 21,230                                       | 122,728                                     |
| Current portion included under current assets     | —   | (14,785)                                     | (14,785)                                    |
|   | <hr/>                                       | <hr/>  | <hr/>                                       |
|   | <b>101,498</b>                              | <b>6,445</b>                                 | <b>107,943</b>                              |
|   | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/>  | <hr style="border-top: 3px double black;"/> |
| At 31st March 2003                                | 106,978                                     | 5,590  | 112,568                                     |
| Current portion included under current assets     | —   | (3,264)                                      | (3,264)                                     |
|   | <hr/>                                       | <hr/>  | <hr/>                                       |
|   | <b>106,978</b>                              | <b>2,326</b>                                 | <b>109,304</b>                              |
|   | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/>  | <hr style="border-top: 3px double black;"/> |



## 11. Fixed assets – Group

|                           | Leasehold<br>improve-<br>ments<br><i>HK\$'000</i> | Studio<br>equipment<br><i>HK\$'000</i> | Office<br>equipment,<br>furniture<br>and fixtures<br><i>HK\$'000</i> | Computer<br>equipment<br><i>HK\$'000</i> | Discotheque<br>equipment<br><i>HK\$'000</i> | Motor<br>vehicle<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---------------------------|---|--|--|--|---|-------------------------------------|--------------------------|
| Cost                      |   |  |  |  |   |                                     |                          |
| At 1st April 2003         | 16,479  | 26,585                                 | 1,703  | 2,016                                    | 3,975                                       | 204                                 | 50,962                   |
| Additions                 | 122   | 42                                     | 23   | 169                                      | 429   | –                                   | 785                      |
| Disposals                 | –   | (123)                                  | –  | –  | –   | –                                   | (123)                    |
| Exchange differences      | 2,282   | 3,680                                  | 161  | 130                                      | –   | 28                                  | 6,281                    |
| <b>At 31st March 2004</b> | <b>18,883</b>                                     | <b>30,184</b>                          | <b>1,887</b>   | <b>2,315</b>                             | <b>4,404</b>                                | <b>232</b>                          | <b>57,905</b>            |
| Accumulated depreciation  |   |  |  |  |   |                                     |                          |
| At 1st April 2003         | 6,036   | 7,086                                  | 957  | 1,514                                    | 843   | 117                                 | 16,553                   |
| Charge for the year       | 3,555   | 3,826                                  | 272  | 318                                      | 1,508                                       | 65                                  | 9,544                    |
| Disposals                 | –   | (68)                                   | –  | –  | –   | –                                   | (68)                     |
| Exchange differences      | 1,089   | 1,259                                  | 88   | 87                                       | –   | 21                                  | 2,544                    |
| <b>At 31st March 2004</b> | <b>10,680</b>                                     | <b>12,103</b>                          | <b>1,317</b>   | <b>1,919</b>                             | <b>2,351</b>                                | <b>203</b>                          | <b>28,573</b>            |
| Net book value            |   |  |  |  |   |                                     |                          |
| <b>At 31st March 2004</b> | <b>8,203</b>                                      | <b>18,081</b>                          | <b>570</b>   | <b>396</b>                               | <b>2,053</b>                                | <b>29</b>                           | <b>29,332</b>            |
| At 31st March 2003        | 10,443  | 19,499                                 | 746  | 502                                      | 3,132                                       | 87                                  | 34,409                   |



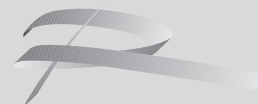
## 12. Investments in subsidiaries – Company

|                                   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|-----------------------------------|--------------------------------|------------------|
| Unlisted investments, at cost     | <b>56,162</b>                  | 56,162           |
| Loan to a subsidiary              | <b>31,637</b>                  | 31,637           |
|                                   | <b>87,799</b>                  | 87,799           |
| Provision for diminution in value | <b>(37,667)</b>                | (37,622)         |
|                                   | <b>50,132</b>                  | 50,177           |

The loan to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

The following is a list of the subsidiaries as at 31st March 2004:

| Name                        | Place of incorporation/ establishment and kind of legal entity | Issued and fully paid up share capital/ registered capital | Attributable equity interest | Principal activities and place of operation   |
|-----------------------------|--|--|------------------------------|---|
| Rojam Entertainment Limited | Hong Kong, limited liability company                           | 100,000 ordinary shares of HK\$1 each                      | 100%                         | Sale of records and other audio-visual products, provision of marketing and promotion activities, provision of general administration and management services to group companies in Hong Kong |
| Rojam.com Limited           | Hong Kong, limited liability company                           | 1,000 ordinary shares of HK\$1 each                        | 100%                         | Inactive  |
| Rojam Management Limited    | Hong Kong, limited liability company                           | 10,000 ordinary shares of HK\$1 each                       | 100%                         | Inactive  |



## 12. Investments in subsidiaries – Company *(Continued)*

The following is a list of the subsidiaries as at 31st March 2004: *(Continued)*

| Name   | Place of incorporation/ establishment and kind of legal entity       | Issued and fully paid up share capital/ registered capital | Attributable equity interest | Principal activities and place of operation   |
|--|--|--|------------------------------|---|
| R&C Asia Ltd. ("R&C Asia")<br>(formerly known as<br>Rojam Japan Limited)                     | Japan,<br>limited liability<br>company                               | 400 shares<br>totaling<br>¥90,000,000                      | 100%                         | Administration of<br>online record sales,<br>sales and promotion<br>coordination, music<br>production and<br>management of the<br>studio in Japan |
| R&C Japan Ltd.<br>("R&C Japan")  | Japan,<br>limited liability<br>company                               | 600 shares<br>totalling<br>¥30,000,000                     | 80%                          | Sales of records and<br>other audio-visual<br>products, master tape<br>right licensing and<br>music production<br>in Japan                        |
| Rojam International Limited  | British Virgin<br>Islands ("BVI"),<br>limited liability<br>company   | 1 registered share<br>of US\$1 each                        | 100%                         | Intellectual property<br>holding, music and<br>web content production<br>in Hong Kong and<br>Japan  |
| Rojam Investment Limited   | BVI,<br>limited liability<br>company                                 | 1 registered share<br>of US\$1 each                        | 100%                         | Investment holding in<br>Hong Kong and PRC  |
| Rojam U.S.A., Inc.   | United States of<br>America ("USA"),<br>limited liability<br>company | 2 registered shares<br>of US\$1 each                       | 100%                         | Investment holding<br>in USA  |
| Yoshimoto Music Holdings,<br>Inc.  | USA,<br>limited liability<br>company                                 | 5 registered shares<br>of US\$1 each                       | 80%                          | Investment holding in<br>USA and Japan  |
| Shanghai Rojam Entertainment<br>Company Limited<br>("Shanghai Rojam")<br><i>(Note below)</i> | PRC,<br>limited liability<br>company                                 | US\$1,000,000  | 90%                          | Operation of<br>discotheque business<br>in PRC  |



## 12. Investments in subsidiaries – Company *(Continued)*

Note:

On 18th September 2002, the Group entered into a Chinese-foreign cooperative joint venture contract with the minority shareholder of Shanghai Rojam pursuant to a sales and purchase agreement with Chikou Co., Ltd. to acquire 90% of the registered share capital of Shanghai Rojam entered on 11th January 2002. By virtue of the said contract, this minority shareholder has agreed to accept a pre-fixed amount as its return on investment, whereas the Group will be entitled to/responsible for any or all operating profit/loss. The pre-fixed amount paid/payable to this minority shareholder is recognised as management fee payable to the minority shareholder in the consolidated profit and loss account.

According to the terms of the said contract, the minority shareholder is entitled to a pre-fixed amount of RMB600,000 for the year ended 31st December 2002, and of RMB500,000 per annum from the year beginning 1st January 2003. Such amount is subject to further negotiation should the business encounter significant changes.

## 13. Inventories

|                        | <b>2004</b>          | 2003         |
|------------------------|----------------------|--------------|
|                        | <b>HK\$'000</b>      | HK\$'000     |
| Production-in-progress | <b>10,891</b>        | 5,180        |
| Merchandise            | <b>2,034</b>         | 1,397        |
| Finished goods         | –                    | 189          |
|                        | <u><b>12,925</b></u> | <u>6,766</u> |

At 31st March 2004, the carrying amount of inventories that are carried at net realisable value is Nil (2003: HK\$520,000).

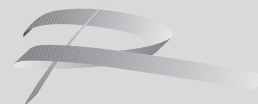
## 14. Amounts due from/to subsidiaries

The amounts are unsecured, interest-free and have no fixed terms of repayment.

## 15. Trade receivables

The majority of the Group's turnover is on credit terms of sixty to ninety days except for the royalty income, of which credit terms are normally negotiable between the Group and its customers. At 31st March 2004, the ageing analysis of the trade receivables were as follows:

|                              | <b>Group</b>          |                |
|------------------------------|-----------------------|----------------|
|                              | <b>2004</b>           | 2003           |
|                              | <b>HK\$'000</b>       | HK\$'000       |
| Current                      | <b>11,349</b>         | 14,489         |
| 30-60 days                   | <b>304</b>            | 1,457          |
| 61-90 days                   | <b>832</b>            | 566            |
| Over 90 days                 | <b>2,444</b>          | 3,155          |
|                              | <u><b>14,929</b></u>  | <u>19,667</u>  |
| Provision for doubtful debts | <u><b>(1,829)</b></u> | <u>(1,840)</u> |
|                              | <u><b>13,100</b></u>  | <u>17,827</u>  |



## 16. Cash and bank balances

Included in the balance is approximately HK\$8,119,000 (2003: HK\$5,892,000) denominated in Renminbi in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulation of foreign exchange control promulgated by the PRC government.

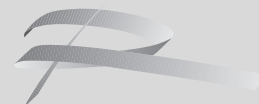
## 17. Trade payables

At 31st March 2004 and 31st March 2003, the ageing of the trade payables was current.

## 18. Share capital

|   | <b>Authorised<br/>ordinary shares of<br/>HK\$0.1 each</b>            |                 |
|---|--|-----------------|
|   | <b>Number of shares</b>  | <b>HK\$'000</b> |
| At 1st April 2002, 31st March 2003<br>and 31st March 2004 | <u>5,000,000,000</u>   | <u>500,000</u>  |
|   | <b>Issued and fully paid<br/>ordinary shares of<br/>HK\$0.1 each</b> |                 |
|   | <b>Number of shares</b>  | <b>HK\$'000</b> |
| At 1st April 2002   | 1,104,684,403  | 110,468         |
| Issue of shares in 2002 <i>(note(d))</i>                  | <u>450,000,000</u>   | <u>45,000</u>   |
| At 31st March 2003 and 31st March 2004                    | <u>1,554,684,403</u>   | <u>155,468</u>  |

- (a) Pursuant to a resolution passed by the shareholders of the Company on 21st May 2001, two share options schemes, namely, the pre-IPO grant of options and share options scheme respectively, were adopted by the Company subject to the terms and conditions stipulated therein.
- (b) During the year, no options were granted or exercised, and 1,300,000 options had lapsed following the cessation of the employment of the relevant employees with the Group.



## 18. Share capital *(Continued)*

### (c) Share options scheme

#### (i) *Pre-IPO Grant of Options*

Details of outstanding share options granted pursuant to the pre-IPO grant of options scheme of the Company as at 31st March 2004 are as follows:

| Date of grant | Exercise Price<br>HK\$ | Granted           | As at<br>1st April<br>2003 | Exercised | Lapsed   | Cancelled | As at<br>31st March<br>2004 | Exercise period                   |
|---------------|------------------------|-------------------|----------------------------|-----------|----------|-----------|-----------------------------|-----------------------------------|
| 21st May 2001 | 0.1                    | 41,387,376        | 41,387,376                 | -         | -        | -         | 41,387,376                  | 31st May 2001 to<br>30th May 2011 |
| 21st May 2001 | 0.8                    | 10,346,844        | 10,346,844                 | -         | -        | -         | 10,346,844                  | 31st May 2001 to<br>30th May 2011 |
|               |                        | <u>51,734,220</u> | <u>51,734,220</u>          | <u>-</u>  | <u>-</u> | <u>-</u>  | <u>51,734,220</u>           |                                   |

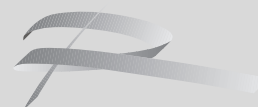
#### (ii) *Share Options Scheme*

Details of outstanding share options granted pursuant to the share options scheme of the Company as at 31st March 2004 are as follows:

| Date of grant  | Exercise Price<br>HK\$ | Granted           | As at<br>1st April<br>2003 | Exercised | Lapsed             | Cancelled | As at<br>31st March<br>2004 | Exercise period                     |
|----------------|------------------------|-------------------|----------------------------|-----------|--------------------|-----------|-----------------------------|-------------------------------------|
| 12th July 2001 | 0.47                   | 52,240,000        | 21,500,000                 | -         | (1,300,000)        | -         | 20,200,000                  | 12th July 2001 to<br>11th July 2011 |
|                |                        | <u>52,240,000</u> | <u>21,500,000</u>          | <u>-</u>  | <u>(1,300,000)</u> | <u>-</u>  | <u>20,200,000</u>           |                                     |

- (d) Pursuant to a sale and purchase agreement dated 20th June 2002, as amended by two supplemental agreements dated 29th July 2002 and 13th September 2002 respectively, and entered into between the Company and Yoshimoto Koygo Ltd. ("Yoshimoto"), a company incorporated and listed in Japan, the Company procured the purchase of 80% equity interest in R&C Japan, an indirectly wholly-owned subsidiary of Yoshimoto incorporated in Japan principally engaged in the production of music master tapes and licensing of master tape rights, at a consideration of HK\$67.5 million. The consideration was satisfied by the issue and allotment of 450 million new shares of the Company. The transaction was completed on 10th October 2002, and the shares were allotted and booked at the closing price of HK\$0.10 per share quoted on The Stock Exchange of Hong Kong Limited at the date of completion as considerations for the acquisition of R&C Japan.





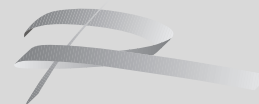
## 19. Reserves

### (a) Group

|  | Share<br>premium<br><i>HK\$'000</i> | Exchange<br>reserve<br><i>HK\$'000</i> | Accumulated<br>losses<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|-------------------------------------|--|--|--------------------------|
| At 1st April 2002  | 148,329                             | (4,924)                                | (75,771)                                 | 67,634                   |
| Profit for the year, as<br>previously reported<br>and restated                       | –                                   | –                                      | 3,320                                    | 3,320                    |
| Exchange adjustment<br>on translation of the<br>accounts of overseas<br>subsidiaries | –                                   | (1,388)                                | –  | (1,388)                  |
|  | <u>148,329</u>                      | <u>(6,312)</u>                         | <u>(72,451)</u>                          | <u>69,566</u>            |
| At 31st March 2003, as<br>previously reported<br>and restated                        | <u>148,329</u>                      | <u>(6,312)</u>                         | <u>(72,451)</u>                          | <u>69,566</u>            |
| At 1st April 2003, as<br>previously reported<br>and restated                         | 148,329                             | (6,312)                                | (72,451)                                 | 69,566                   |
| Profit for the year  | –                                   | –                                      | 7,292                                    | 7,292                    |
| Exchange adjustment<br>on translation of the<br>accounts of overseas<br>subsidiaries | –                                   | (1,005)                                | –  | (1,005)                  |
|  | <u>–</u>                            | <u>(1,005)</u>                         | <u>–</u>                                 | <u>(1,005)</u>           |
| <b>At 31st March 2004</b>  | <b><u>148,329</u></b>               | <b><u>(7,317)</u></b>                  | <b><u>(65,159)</u></b>                   | <b><u>75,853</u></b>     |

### (b) Company

|                           | Share<br>premium<br><i>HK\$'000</i> | Accumulated<br>losses<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---------------------------|-------------------------------------|--|--------------------------|
| At 1st April 2002         | 148,329                             | (91,586)                                 | 56,743                   |
| Loss for the year         | –                                   | (26,484)                                 | (26,484)                 |
|                           | <u>148,329</u>                      | <u>(118,070)</u>                         | <u>30,259</u>            |
| At 31st March 2003        | <u>148,329</u>                      | <u>(118,070)</u>                         | <u>30,259</u>            |
| At 1st April 2003         | 148,329                             | (118,070)                                | 30,259                   |
| Loss for the year         | –                                   | (10,634)                                 | (10,634)                 |
|                           | <u>–</u>                            | <u>(10,634)</u>                          | <u>(10,634)</u>          |
| <b>At 31st March 2004</b> | <b><u>148,329</u></b>               | <b><u>(128,704)</u></b>                  | <b><u>19,625</u></b>     |


**20. Deferred taxation**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5%. (2003: 16%)

The movement on the deferred tax liabilities account is as follows:

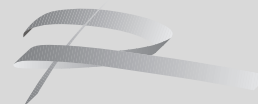
|   | <b>Group</b>    |                  |
|---|-----------------|------------------|
|   | <b>2004</b>     | Restated<br>2003 |
|   | <b>HK\$'000</b> | HK\$'000         |
| At the beginning of the year                                  | –               | –                |
| Exchange differences  | <b>63</b>       | –                |
| Deferred taxation charged to profit and loss account (note 4) | <b>868</b>      | –                |
|   | <hr/>           | <hr/>            |
| At the end of the year  | <b>931</b>      | –                |
|   | <hr/> <hr/>     | <hr/> <hr/>      |

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$49,143,000 (2003: HK\$44,353,000) to carry forward against future taxable income. These tax losses have no expiry date.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

**Deferred tax liabilities**

|                                       | <b>Master tape</b> |                  | <b>Total</b>    |                  |
|---------------------------------------|--------------------|------------------|-----------------|------------------|
|                                       | <b>2004</b>        | Restated<br>2003 | <b>2004</b>     | Restated<br>2003 |
|                                       | <b>HK\$'000</b>    | HK\$'000         | <b>HK\$'000</b> | HK\$'000         |
| At the beginning of the year          | <b>1,097</b>       | –                | <b>1,097</b>    | –                |
| Charged to profit and<br>loss account | <b>6,754</b>       | 1,097            | <b>6,754</b>    | 1,097            |
| Exchange differences                  | <b>641</b>         | –                | <b>641</b>      | –                |
|                                       | <hr/>              | <hr/>            | <hr/>           | <hr/>            |
| At the end of the year                | <b>8,492</b>       | 1,097            | <b>8,492</b>    | 1,097            |
|                                       | <hr/> <hr/>        | <hr/> <hr/>      | <hr/> <hr/>     | <hr/> <hr/>      |



## 20. Deferred taxation *(Continued)*

### Deferred tax assets

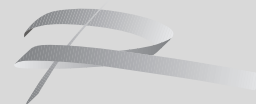
|                                     | Provisions     |          | Tax losses     |                | Others       |          | Total          |                |
|-------------------------------------|----------------|----------|----------------|----------------|--------------|----------|----------------|----------------|
|                                     | Restated       |          | Restated       |                | Restated     |          | Restated       |                |
|                                     | 2004           | 2003     | 2004           | 2003           | 2004         | 2003     | 2004           | 2003           |
|                                     | HK\$'000       | HK\$'000 | HK\$'000       | HK\$'000       | HK\$'000     | HK\$'000 | HK\$'000       | HK\$'000       |
| At the beginning of the year        | -              | -        | (1,097)        | -              | -            | -        | (1,097)        | -              |
| Credited to profit and loss account | (4,195)        | -        | (1,592)        | (1,097)        | (99)         | -        | (5,886)        | (1,097)        |
| Exchange differences                | (304)          | -        | (267)          | -              | (7)          | -        | (578)          | -              |
| At the end of the year              | <u>(4,499)</u> | <u>-</u> | <u>(2,956)</u> | <u>(1,097)</u> | <u>(106)</u> | <u>-</u> | <u>(7,561)</u> | <u>(1,097)</u> |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

|                          | 2004         | Restated<br>2003 |
|--------------------------|--------------|------------------|
|                          | HK\$'000     | HK\$'000         |
| Deferred tax assets      | (7,561)      | (1,097)          |
| Deferred tax liabilities | <u>8,492</u> | <u>1,097</u>     |
|                          | <u>931</u>   | <u>-</u>         |

The amounts shown in the balance sheet include the following:

|  |              |          |
|--|--------------|----------|
| Deferred tax liabilities to be settled after more than 12 months | <u>8,492</u> | <u>-</u> |
|--|--------------|----------|



## 21. Notes to the consolidated cash flow statement

Reconciliation of profit before taxation to net cash inflow/ (outflow) from operations

|  | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|--|--------------------------------|------------------|
| Profit before taxation   | <b>11,146</b>                  | 10,571           |
| Depreciation of fixed assets   | <b>9,544</b>                   | 15,010           |
| Amortisation of goodwill   | <b>5,480</b>                   | 2,627            |
| Amortisation of record masters   | <b>8,271</b>                   | 1,017            |
| Impairment of record masters   | <b>3,816</b>                   | 1,832            |
| Interest income  | <b>(297)</b>                   | (864)            |
| Gain on disposal of fixed assets   | <b>(43)</b>                    | (94)             |
|  | <hr/>                          | <hr/>            |
| Operating profit before working capital changes                                | <b>37,917</b>                  | 30,099           |
| (Increase)/decrease in inventories   | <b>(6,159)</b>                 | 1,033            |
| (Increase)/decrease in trade receivables, other receivables<br>and prepayments | <b>(17,617)</b>                | 9,593            |
| Decrease in amounts due from related companies                                 | –                              | 1,637            |
| Decrease in amount due from a shareholder                                      | –                              | 5,128            |
| Increase/(decrease) in trade payables, accruals and<br>other payables          | <b>31,279</b>                  | (63,620)         |
|  | <hr/>                          | <hr/>            |
| Net cash inflow/(outflow) from operations                                      | <b>45,420</b>                  | (16,130)         |
|  | <hr/> <hr/>                    | <hr/> <hr/>      |

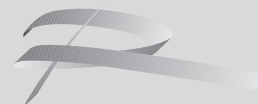
## 22. Commitments under operating leases – land and building

At 31st March 2004, the Group had future aggregate minimum lease payments under operating leases as follows:

|   | <b>2004</b><br><b>HK\$'000</b> | 2003<br>HK\$'000 |
|---|--------------------------------|------------------|
| Not later than one year                           | <b>4,975</b>                   | 4,619            |
| Later than one year and not later than five years | <b>1,640</b>                   | 4,650            |
|   | <hr/>                          | <hr/>            |
|   | <b>6,615</b>                   | 9,269            |
|   | <hr/> <hr/>                    | <hr/> <hr/>      |

## 23. Contingent liabilities

The Group and the Company had no material contingent liabilities at 31st March 2004 and 31st March 2003.



## 24. Related party transactions

Save as disclosed in other notes to the accounts, the Group has carried out the following material transactions with related parties during the year:

|   | Note | 2004<br>HK\$'000 | 2003<br>HK\$'000 |
|---|------|------------------|------------------|
| Revenues received and receivable from related parties:                          |      |                  |                  |
| – trademark licence fees from Shanghai Rojam                                    | (a)  | –                | 845              |
| Operating expenses paid and payable to related parties:                         |      |                  |                  |
| – master video production cost to Yes Visions Co., Ltd and Y's Vision Co., Ltd. | (b)  | 383              | –                |
| – producer and performance fee to:  |      |                  |                  |
| – TK Networks Inc.  |      | note (f)         | note (f)         |
| – Mr. Tetsuya Komuro  |      | note (g)         | note (g)         |
| – rental payment and other charges to Yoshimoto                                 | (c)  | 1,249            | 587              |
| – artiste royalties to Yoshimoto  | (d)  | 3,877            | 1,070            |
| – homepage production service fee to Fandango, Inc.                             | (e)  | 547              | 336              |

(a) The trademark licence fees are charged for the use of various trademarks by Shanghai Rojam in accordance with the terms of agreements. The Group ceased to receive the said fee from Shanghai Rojam following the completion of its acquisition on 30th September 2002.

(b) Yes Visions Co., Ltd. ("Yes Visions") and Y's Vision Co., Ltd. ("Y's Vision") are beneficially owned as to 97% and 39%, respectively, by Yoshimoto. Pursuant to a master video production agreement dated 10th October 2002 and entered into between the Group and Yes Visions, and a master video production agreement dated 10th October 2002 and entered into between the Group and Y's Vision, the Group will engage Yes Visions and Y's Vision respectively to produce videos, containing visual or audio-visual recordings, to complement the Group's promotional activities in conjunction with its release of artists' music records and other products. Under these agreements, the Group is liable to pay Yes Visions and Y's Vision production costs of the videos, containing visual or audio-visual recordings, being Yes Visions' and Y's Vision's out-of-pocket expenses relating to the production plus administration costs which is fixed at 10% of such out-of-pocket expenses. The term of each of these agreements is from 10th October 2002 to 31st March 2005.



## **24. Related party transactions** *(Continued)*

- (c) Pursuant to the sub-lease agreements dated 29th March 2002 and 10th October 2002 between the Group and Yoshimoto, the Group will sub-let office premises from Yoshimoto for an aggregate monthly rental payment of JPY1,430,000 (approximately HK\$100,000), and other electricity and water charges, for a lease term up to 31st March 2005.
- (d) Pursuant to a master artist performance agreement dated 10th October 2002 between the Group and Yoshimoto, Yoshimoto will procure artists managed by Yoshimoto and nominated by the Group, to perform to enable the Group to reproduce and distribute the records or videogram of those artists. Artist royalties in connection with the sales of such audio and audio-visual recordings are payable to Yoshimoto by the Group according to the rates as stipulated in the agreement.
- (e) Fandango, Inc. ("Fandango") is a company beneficially owned as to 65% by Yoshimoto. Pursuant to the web production agreements dated 1st April 2002 and 10th October 2002 between the Group and Fandango, Fandango will render production services for the homepages of the Group for an aggregate monthly fee of JPY900,000 (approximately HK\$63,000) for a contract term up to 31st March 2005.
- (f) Pursuant to a service agreement dated 2nd January 2001 between the Group and TK Networks Inc., a company wholly-owned by Mr. Tetsuya Komuro, an ex-executive Director of the Company who resigned with effect from 21st May 2004, TK Networks Inc. has, since 20th January 1998, procured and caused Mr. Tetsuya Komuro to provide producer services of music records to Rojam Entertainment Limited ("REL"). In consideration, REL may at its entire discretion give TK Networks Inc. a bonus payment. No bonus has been paid or is payable during the years ended 31st March 2004 and 2003.
- (g) Pursuant to a service agreement dated 21st May 2001 between Mr. Tetsuya Komuro and the Group, Mr. Tetsuya Komuro is remunerated, in the capacity of a chief executive producer, with the grant of share options entitling him to subscribe for up to a maximum of 41,387,376 ordinary shares in the Company at an exercise price of HK\$0.1 per share, subject to terms and conditions attached thereto.

In the opinion of the Directors of the Company, the above related party transactions were carried out in the ordinary and usual course of business and on terms mutually agreed between the Group and the respective related parties. Except for the producer fee as set out in notes (f) and (g) above, the Group charged and/or paid the above related parties at market prices.

## **25. Approval of accounts**

The accounts were approved by the board of Directors on 28th June 2004.